

EXHIBIT I

[SEC Info](#) [Home](#) [Search](#) [My Interests](#) [Help](#) [Sign In](#) [Please Sign In](#)

Delphi Corp · 10-K · For 12/31/98

Filed On 3/17/99 · SEC File 1-14787 · Accession Number 1072342-99-6

Find in **this filing.** ☐ Show **docs searched** ☐ and **every "hit".** ☐
Help... *Wildcards:* ? (any letter), * (many). *Logic:* for Docs: & (and), | (or); for Text: | (anywhere)
 "(&)" (near

<u>As Of</u>	<u>Filer</u>	<u>Filing</u>	<u>On/For/As</u>	<u>Docs</u>
<u>3/17/99</u>	<u>Delphi Corp</u>	<u>10-K</u>	<u>12/31/98</u>	<u>8:</u>

Annual Report · Form 10-K **Filing Table of Contents**

<u>Document/Exhibit</u>	<u>Description</u>	<u>P.</u>
1: <u>10-K</u>	Year-End Report	
2: <u>EX-4</u>	Instruments Defining Rights of Security Holders	
3: <u>EX-10</u>	Material Contracts	
4: <u>EX-10</u>	Material Contracts	
5: <u>EX-12</u>	Statement Re: Computation of Ratios	
6: <u>EX-21</u>	Subsidiaries of the Registrant	
7: <u>EX-23</u>	Consents of Experts and Counsel	
8: <u>EX-27</u>	Financial Data Schedule 1998	

10-K · Year-End Report **Document Table of Contents**

<u>Page</u>	<u>(sequential)</u>	<u>(alphabetic)</u>	<u>Top</u>
1	<u>1st Page</u>	• <u>Alternative Formats (RTF, XML, et al.)</u>	
2	<u>Item 1. Business</u>	• <u>Aftermarket</u>	
"	<u>VMs</u>	• <u>Aftermarket Sales</u>	
"	<u>Strategy</u>	• <u>Ancillary Agreements</u>	
"	<u>Improve Operating Performance</u>	• <u>Annual Incentive Plan</u>	
"	<u>Intellectual Property</u>	• <u>Arrangements between GM and Delphi</u>	
"	<u>Electronics & Mobile Communication</u>		
"	<u>Safety, Thermal & Electrical</u>		

Architecture
 " Dynamics & Propulsion
 " Customers
 " Total Sales
 " Awarded Business
 " Supply Agreement
 " Aftermarket
 " Arrangements between GM and Delphi
 " Separation Agreement
 " Ancillary Agreements
 " IPO and Distribution Agreement
 " Cooperation on Tax Matters
 " Registration Rights Agreement
 " Use of GM's Tooling
 " Aftermarket Sales
 " Employee Matters
 " Employee benefits
 " Real Estate and Environmental
 " Warranty Matters
 " International Agreements
 " Item 2. Properties
 " Item 3. Legal Proceedings
 " Item 4. Submission of Matters to a Vote of Security Holders
 " Item 5. Market for Registrant's Common Equity and Related Stockholder Matters
 " Item 6. Selected Financial Data
 " Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
 " Separation
 " Results of Operations
 " Special Items and Work Stoppages
 " 1998
 " 1997
 " 1996
 " Net sales
 " Operating (loss)income
 " Interest expense
 " Other income, net
 " Net (loss) income

• Awarded Business
 • Business
 • Cash Flows
 • Change in Control Agreements
 • Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
 • Classified Plan
 • Cooperation on Tax Matters
 • Customers
 • Deferred income taxes
 • Delphi
 • Dynamics & Propulsion
 • Electronics & Mobile Communication
 • Employee benefits
 • Employee Matters
 • Equity (deficit)
 • Executive Compensation
 • Exercises of Stock Options
 • EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K Page No
 • Extension of Payment Terms
 • Financial Statements
 • Founders Grants
 • Grants of Stock Options
 • Improve Operating Performance
 • Incentive Plans
 • Intellectual Property
 • Interest expense
 • International Agreements
 • Investing Activities
 • IPO and Distribution Agreement
 • Legal Proceedings
 • Liquidity and Capital Resources
 • Long Term Incentive Plan Awards
 • Management
 • Management's Discussion and Analysis of Financial Condition and Results of Operations
 • Market for Registrant's Common Equity and Related Stockholder Matters

- | | |
|--|--|
| <p>" <u>Net income</u></p> <p>" <u>Liquidity and Capital Resources</u></p> <p>" <u>Extension of Payment Terms</u></p> <p>" <u>Cash Flows</u></p> <p>" <u>Investing Activities</u></p> <p>" <u>Our Other Postretirement Employee Benefits and Underfunded Pension Obligations</u></p> <p>" <u>Deferred income taxes</u></p> <p>" <u>Item 7a. Quantitative and Qualitative Disclosures About Market Risks</u></p> <p>" <u>Item 8. Financial Statements</u></p> <p>" <u>Equity (deficit)</u></p> <p>" <u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u></p> <p>" <u>Items 10 Through 13. Management Delphi</u></p> <p>" <u>Executive Compensation</u></p> <p>" <u>Grants of Stock Options</u></p> <p>" <u>Exercises of Stock Options</u></p> <p>" <u>Long Term Incentive Plan Awards</u></p> <p>" <u>Change in Control Agreements</u></p> <p>" <u>Incentive Plans</u></p> <p>" <u>Founders Grants</u></p> <p>" <u>Substitute Awards</u></p> <p>" <u>Stock Incentive Plan</u></p> <p>" <u>Annual Incentive Plan</u></p> <p>" <u>Performance Achievement Plan</u></p> <p>" <u>Classified Plan</u></p> <p>" <u>Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K Page No</u></p> | <ul style="list-style-type: none"> • <u>Net income</u> • <u>Net (loss) income</u> • <u>Net sales</u> • <u>Operating (loss) income</u> • <u>Other income, net</u> • <u>Our Other Postretirement Employee Benefits and Underfunded Pension Obligations</u> • <u>Performance Achievement Plan</u> • <u>Properties</u> • <u>Quantitative and Qualitative Disclosures About Market Risks</u> • <u>Real Estate and Environmental</u> • <u>Registration Rights Agreement</u> • <u>Results of Operations</u> • <u>Safety, Thermal & Electrical Architecture</u> • <u>Selected Financial Data</u> • <u>Separation</u> • <u>Separation Agreement</u> • <u>Special Items and Work Stoppages</u> • <u>Stock Incentive Plan</u> • <u>Strategy</u> • <u>Submission of Matters to a Vote of Security Holders</u> • <u>Substitute Awards</u> • <u>Supply Agreement</u> • <u>Total Sales</u> • <u>Use of GM's Tooling</u> • <u>VMs</u> • <u>Warranty Matters</u> • <u>1996</u> • <u>1997</u> • <u>1998</u> |
|--|--|

10-K	1st "Page" of 2	TOC	Top	Previous	Next	Bottom	Just 1st
------	-----------------	-----	-----	----------	------	--------	----------

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549-1004

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES
ACT OF 1934

For the fiscal year ended December 31, 1998

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file No. 1-14787

DELPHI AUTOMOTIVE SYSTEMS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(state or other jurisdiction of
incorporation or organization)

38-3430473
(IRS employer
identification number)

5725 Delphi Drive, Troy, Michigan
(address of principal executive offices)

48098
(zip code)

Registrant's telephone number, including area code (248) 813-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class -----	Name of each exchange on which regis -----
Common Stock, \$0.01 par value per share	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed
required to be filed by Section 13 or 15(d) of the Securities and E
of 1934 during the preceding 12 months (or for such shorter peri
registrant was required to file such reports), and (2) has been subj
filing requirements for the past 90 days. Yes___. No__**X**_. We became
such filing requirements on February 4, 1999 and have filed all requi
since that date.

Indicate by check mark if disclosure of delinquent filers pursuant

of Regulation S-K is not contained herein, and will not be contained in the best of registrant's knowledge, in definitive proxy or information incorporated by reference in Part III of this Form 10-K or any amendment to Form 10-K. []

As of March 1, 1999, the aggregate market value of the registrant's Common Stock, par value \$ 0.01 per share, held by nonaffiliates of the registrant was about \$1.9 billion. The closing price of the Common Stock on March 1, 1999 reported on the New York Stock Exchange was \$18.69 per share. As of March 1, 1999, the number of shares outstanding of the registrant's Common Stock was 565 million shares.

1

DELPHI AUTOMOTIVE SYSTEMS CORPORATION

INDEX AND CROSS REFERENCE

Part I

Item 1.	<u>Business</u>	3
Item 2.	<u>Properties</u>	3
Item 3.	<u>Legal Proceedings</u>	3
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	3

Part II

Item 5.	<u>Market for Registrant's Common Equity and Related Stockholder Matters</u>	3
Item 6.	<u>Selected Financial Data</u>	4
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	4
Item 7a.	<u>Quantitative and Qualitative Disclosures About Market Risks</u>	5
Item 8.	<u>Financial Statements</u>	5
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	

Part III

Item 10. Management: Includes Directors, Executive Officers and Key

- 13. Employees of Delphi, Executive Compensation, Security Ownership and Certain Relationships and Related Transactions,

8

Part IV

- Item 14. Exhibits, Financial Statement Schedule, and Reports on Form 8-K

2

10-K	Last "Page" of 2	TOC	1st	Previous	Next	Bottom	Just 2nd
------	------------------	-----	-----	----------	------	--------	----------

PART I

DELPHI AUTOMOTIVE SYSTEMS CORPORATION

ITEM 1. Business

History of Delphi. Delphi Automotive Systems Corporation ("D incorporated in Delaware in late 1998. Before 1991, our business wa by many separate automotive parts operations which General Motors ("GM" or "General Motors") had acquired over time. These opera generally managed independently from each other within the GM organi 1991, General Motors organized its components businesses into the Components Group. GM's stated objective was to improve the competit these operations and then, based on this improved competitive positio: its business through penetration of new markets. Since that tim transformed our business from a North America-based, captive compone to GM into a global supplier of components, integrated systems and mo wide range of customers. In 1995, the group was given the na Automotive Systems" in order to establish its separate identi automotive parts industry.

In late 1997, in connection with the spin-off by GM of i electronics business, GM transferred Delco Electronics Corporati Electronics") to us in order to more closely integrate Delco E expertise in electronics with our capabilities in automotive com systems. Our Electronics & Mobile Communication product sector cons operations of Delco Electronics. From 1986 through 1997, Delco Elec been operated by GM's Hughes Electronics Corporation subsidiary. January 1, 1999, General Motors transferred or agreed to transfer used in our business to our company and our subsidiaries, and subsidiaries have assumed, or agreed to assume, pay, perform, s discharge, the related liabilities.

In February, we completed an initial public offering (the "I million shares of our \$0.01 par value common stock ("Common Stoc represents about 17.7% of our outstanding Common Stock. GM current remaining 82.3% of our outstanding Common Stock. GM has announc currently plans to complete its divestiture of Delphi later distributing all of its shares of our Common Stock to the holders of common stock (the "Distribution"). GM currently expects to acco Distribution through a:

- o Split-Off--such as an exchange offer by GM in which holders of common stock would be invited to tender their shares in exchange of our Common Stock; or
- o Spin-Off--a pro rata distribution by GM of its shares of our C

to holders of GM's \$1-2/3 common stock; or

o Combined Split-Off/Spin-Off--some combination of the above transact

GM has the sole discretion to determine the timing, structure and of the Distribution. We have agreed to cooperate with GM in all complete the divestiture because we believe that our complete separat will enhance our ability to pursue our business strategy. GM has private letter ruling from the IRS to the effect that its distribut shares of our Common Stock to the holders of its \$1-2/3 common sto tax-free to GM and its stockholders for U.S. federal income tax. However, GM is not obligated to complete the divestiture and we ca you as to whether or when it will occur.

Overview. Delphi is the world's largest and most diversified components, integrated systems and modules to the automotive industry net sales of \$28.5 billion. We have become a leader in the global parts industry by capitalizing on the extensive experience we have ga principal supplier of automotive parts to General Motors, the worl manufacturer of automotive vehicles. We are primarily a "Tier 1" supp means that we generally provide our products directly to automoti manufacturers ("VMs"). We also sell our products to the worldwide for replacement parts and to non-VM customers.

Several years ago, we began to transform our company fr America-based, captive component supplier to GM into a global s components, integrated systems and modules for a wide range of custom sell our products to every major manufacturer of light vehicles in Since 1993, our sales to customers other than GM have grown from 13.3

3

total sales to 21.4% in 1998 (although our sales to GM were r result of work stoppages at certain GM and Delphi locations in the Un during 1998). For this purpose, our total sales include all sales by which we own a minority interest.

We have also established an expansive global presence, with a manufacturing sites, technical centers, sales offices and joint ventu in every major region of the world. About 60% of our employees and square footage, about 30% of our wholly owned and leased manufactu were located outside the United States and Canada as of December 31, 30% of our total 1998 sales were derived from products manufacture located outside the United States and Canada.

Through our experience with General Motors, we have developed a so understanding of the design, engineering, manufacture and operat aspects of the automotive vehicle. We have both extensive technical e a broad range of product lines and strong systems integration ski enable us to provide comprehensive, systems-based solutions for our

We believe that we are one of the leading Tier 1 suppliers in focused product areas. We operate our business along three major product areas which work closely together to coordinate our product development and efforts. Our three product sectors are: Electronics & Mobile Communications, which includes our automotive electronics and audio and communication products; Safety, Thermal & Electrical Architecture, which includes our interior and power and signal distribution products; and Dynamics & Propulsion, which includes our energy and engine management, chassis and steering products. Note 14 to our consolidated financial statements included elsewhere in this report for additional information.

Industry

General. Our industry generally provides components, systems, submodules to VMs for the manufacture of new vehicles, as well as an aftermarket for use as replacement parts for current production vehicles.

Today, suppliers offer their component products to VMs individually as in a variety of more fully engineered forms, such as modules and systems.

- o "Modules" are groups of component parts arranged in close proximity to each other within a vehicle, which are often assembled by a single supplier and shipped to the VM for installation in a vehicle. Modular instrument panels, cockpit modules and door modules are examples.
- o "Systems" and "subsystems" are groups of component parts located throughout the vehicle which operate together to provide a specific vehicle function. Braking systems, electrical systems and steering systems are examples.

Historically, many large VMs have operated internal divisions to provide a wide range of component parts for their vehicles. However, vehicle manufacturers have recently moved towards a competitive sourcing process for automotive parts, including increased purchases from independent suppliers, as well as lower-priced and/or higher-technology products. These independent suppliers, which often have lower cost structures than in-house operations, have become an important part of the automotive parts industry. Captive suppliers no longer provide their products exclusively to their VM.

Our industry is generally divided into several groups or "tiers:"

- o "Tier 1" suppliers such as Delphi sell their products principally directly and often offer a broad range of product capabilities, including design, engineering and assembly services.
- o "Tier 2" suppliers sell their products principally to Tier 1 suppliers and then combine these parts into their own product offerings. Some suppliers are sometimes referred to as "Tier 3" suppliers.

Industry Trends. Five key trends have been reshaping the automotive p. industry over the past several years:

- o Increased Emphasis on Systems and Modules Sourcing. In order the vehicle design and assembly processes and reduce their increasingly look to their suppliers to provide fully pre-assembled combinations of components rather than individual. By offering sophisticated systems and modules rather than components, Tier 1 suppliers have assumed many of the design, e. research and development and assembly functions traditionally per

4

VMs. In addition, suppliers now often manufacture and ship comp. to the general location of a VM's assembly line and then pro assembly of systems and modules.

- o Globalization of Suppliers. The globalization of VMs, which r. broader global market for vehicle sales and the desire of VMs vehicle production in low-cost markets, has driven the globa suppliers as they follow their customers. In order to serv. markets in a more cost effective manner, many VMs are turnin. vehicle platforms such as "world cars," which typically are desi. location but produced and sold in many different geographic mar. the world. Suppliers for a specific world car are often require. to provide their services in all global locations where that manufactured.

- o Increasing Electronic Content. We believe that the electronic vehicles has been increasing and will continue to increase in. This increase in electronic content is largely driven by cont. often increasingly stringent, regulatory standards for automotiv. and safety as well as consumer demand for increased vehicle perf. functionality at lower cost. Electronics integration, which refers to replacing mechanical with electronic components and of mechanical and electrical functions within the vehicle, al. achieve substantial reduction in the weight and complexity of vehicles, resulting in easier assembly, enhanced fuel economy. emissions control and better vehicle performance. Electronic con. significantly among vehicle models, with higher-end vehicles. sophisticated and extensive electronic controls and systems. As particularly in more developed markets such as North America. seek more competitively-priced ride and handling performanc. security, communications, convenience, entertainm. environment-friendly options in vehicles, such as air bags, key. global positioning systems, audio systems and advanced emiss. systems, Delphi believes that electronic content per vehicle wi. to increase but will remain subject to technology-driven price d. pricing pressures from VMs.

- o Ongoing Industry Consolidation. The worldwide automotive parts consolidating as suppliers seek to achieve operating synergies, business combinations, shift production to locations with more local work rules and practices, acquire complementary technologies, stronger customer relationships and follow their customers as globally. The need for suppliers to provide VMs with single-point of integrated systems and modules on a global basis has hastened industry consolidation. Furthermore, the cost focus of most manufacturers has forced suppliers to reduce their prices, both in the initial process and throughout the term of the contract. Consequently, a supplier's viability depends upon its continuing ability to maintain acceptable operating margins by reducing costs and improving productivity on an ongoing basis, including by achieving economies of scale through consolidation.

- o Shorter Product Development Cycles. Suppliers are under pressure to respond more quickly with new designs and product innovation to support rapidly changing consumer tastes and regulatory requirements. Vehicle demand in North America has shifted from cars to light trucks and vans over the last several years, requiring suppliers to modify operations to focus on parts for these vehicles. In North America and Europe, consumers have been increasingly seeking vehicles with lower-cost ride and handling performance, safety, security, communication, convenience and entertainment options, such as global positioning systems, air conditioning, anti-lock brakes, air bags, power steering, keyless entry and advanced emissions control systems. In developing countries, as economic improvements are made, demand has increased for smaller, less expensive vehicles that satisfy basic transportation needs. Additionally, increasingly stringent government regulations regarding vehicle safety, environmental standards, such as those mandating the use of air pollution control devices and emissions standards, are driving new product development cycles.

Strategy

The key elements of our business strategy are to supply our customers with high-quality, innovative components, systems and modules; to exceed customers' expectations while building new relationships; to leverage our presence to meet our customers' needs; to improve our operating performance; to complete strategic acquisitions, joint ventures and alliances. Each of these elements is discussed more fully below:

Supply High-Quality, Innovative Components, Systems and Modules. The fact that the current industry trend towards increased system and module integration in VMs creates a substantial competitive advantage for our company. We build on our extensive operating history as a vertically integrated supplier. Our world's largest VM provides us with the electronics integration and technical expertise, breadth of product offerings and manufacturing scale to compete successfully on a system and module basis while continuing

high-quality components. We have developed significant systems capabilities in a number of key product areas, including power and propulsion systems, handling systems, passenger environment systems, and control and communications systems. We also have substantial in-house electronics integration capabilities. We coordinate our product development and marketing efforts across product groups and sectors.

By building on our electronics integration expertise, our systems capabilities and the breadth of our product offerings, we are working to develop high-quality product offerings which will provide our customers with the ability to offer consumers enhanced vehicle control, superior occupant protection, collision avoidance systems, onboard communications systems, advanced engine management systems, advanced electrical and electronic architecture and passenger entertainment and convenience features at competitive prices.

We intend to Exceed Existing Customers' Expectations while Building New Relationships. We are pursuing increased business with customers other than GM-North America and we believe that our principal opportunity for future earnings growth is through increased sales to these customers. Although we intend to pursue a relationship with GM and expect to continue to be a principal supplier to GM and its North America operations for a significant period of time, our strategy is to grow our business across a more diversified customer base, thereby becoming less dependent on the volume of vehicles produced by GM-North America.

Our goal has been and continues to be to increase our sales to customers other than GM-North America to at least 50% of our total sales by the end of 2002. We caution you, however, that this goal is a "forward statement" that may turn out not to be attainable. We cannot give any assurance that we will achieve this goal, including within the time period indicated. In establishing and measuring our progress towards achieving this goal, we include in "total sales" all of the sales from minority joint ventures and other investments even though these sales are not reflected in our consolidated financial statements included elsewhere in this report. On this basis, in 1998, 62.2% of our total sales were to customers other than GM-North America and 37.8% of our total sales were to other customers, as compared to 73.7% and 26.3% of our total sales, respectively, in 1993. Excluding minority joint venture sales, the percentages for GM-North America are 37.8% and 62.2%.

We believe that, as an independent company no longer owned by GM, we will have significant opportunities to expand our business globally around the world. We believe that our status as a part of GM has historically been a major impediment to the expansion of our business to customers other than GM, as other VMs have shown varying degrees of reluctance to source extensively from a supplier owned by a major competitor.

Our focus on customer satisfaction, as demonstrated by our strong financial performance, product quality, cost control and customer responsiveness, as well as we strive to increase our sales to customers other than GM.

America. This focus also enhances our ability to execute our bus GM-North America. In order to better serve our customers, our marketing personnel are organized into 25 dedicated customer service of which work with customers other than GM. Each of our major customer is served by its own team which has responsibility for satisfying that customer's needs. Each team is lead by one of our managers and functions as a point of contact within the company to represent the interests of that customer throughout our organization. These teams are supported by our manufacturing facilities and engineering and technical resources worldwide.

Leverage Global Presence. We can provide significant manufacturing, engineering, technical and other support to our customers in every market in which they operate. We believe that our geographic presence is the broadest in the industry. As of December 31, 1998, we had 168 wholly owned or leased manufacturing sites, 27 technical centers, 51 customer service and sales activity offices and 40 joint ventures or other strategic alliances in 36 countries on six continents. We are continuously evaluating and enhancing our engineering and technical resources, which currently include our engineers, scientists and technicians, to provide an efficient, customized global network of engineering and technology customer centers that will better serve our customers around the world.

We believe that we are particularly well positioned as VMs turnkey vehicle platforms, such as world cars, that are manufactured in numerous markets around the world. Since we have manufacturing sites in every major region around the world, we are often able to capitalize on world car opportunities to gain access to new customers. Delphi supplies parts for a number of global vehicle platforms. In addition, that our global presence also provides us opportunities by allowing us

6

leverage sales to a customer in one location or for one product in other locations and for other products.

From 1992 to 1998, the percentage, based on square footage, of owned and leased manufacturing sites located outside the United States and Canada has increased from about 20% to about 30%, reflecting the growth of our VM customers. During the same period, the percentage of our manufacturing sites located outside the United States and Canada has increased from about 60% to about 65%. About 30% of our total 1998 sales were derived from manufacturing at sites located outside the United States and Canada. See Properties for additional information on our facilities and capabilities.

We also have a large number of joint ventures and other partnerships in various locations throughout the world, with the largest located in the Asia/Pacific region, including China and Korea. Our joint ventures and other investments as of December 31, 1998 are shown by geographic region:

United States/Canada.....	5
Europe/Middle East/Africa.....	8
Mexico/South America.....	8
Asia/Pacific.....	19
	--
Total.....	40
	==

For financial information regarding the principal geographic areas operate, see Note 14 to the consolidated financial statements include in this report.

Improve Operating Performance. We have developed, and are im initiatives to improve our operating performance. Operational improv enabled Delphi to achieve significant cost reductions and improve p in the face of an increasingly aggressive cost focus by most majo continued ability to realize operating performance improvements is i our ability to achieve our business objective. Although we have made progress in implementing the initiatives described below, we beli many cases the full impact of these initiatives has not yet been rea primary initiatives to improve operating performance are:

- o Delphi Manufacturing System. In 1997, we developed and began the implementing the Delphi Manufacturing System throughout operations which involves reorganizing the workplace and im production process in order to maximize manufacturing flexibili total manufacturing costs and achieve lean production. Under Manufacturing System, traditional manufacturing production replaced by more flexible manufacturing cells which focus on one-piece production flow rather than traditional batch process flexible manufacturing cells typically consist of clusters of manufacturing operations and efficient work stations, with th placed centrally within each cellular configuration to increase availability. This cell design provides flexibility by varying of operations each operator performs. The Delphi Manufacturing allowed us to improve our product quality and be more respons changing needs of our customers. We believe that continued imp of the Delphi Manufacturing System will allow us to imp manufacturing productivity, increase our daily inventory turns our production lead times.

- o Structural Cost Reductions. We continuously seek to achieve savi reducing our structural costs. Structural costs generally con fixed costs, including our selling, general and administrativ commercial costs, engineering costs and labor and other ma costs. We expect to continue to reduce our structural costs through infrastructure improvements, such as combining operatio possible to reduce our overhead, administrative and related eliminate redundancies. Separately, in connection with integration of Delco Electronics into our operations, we expect

additional structural cost savings. We also seek to reduce our costs by implementing a unified, common approach to operations our global facilities, including a common organizational and structure, application of the Delphi Manufacturing System at manufacturing plants, common training programs and a common metrics for measuring actual performance in comparison to common and goals.

- o Global Sourcing. We use global sourcing in order to obtain the for our direct and indirect materials, machinery and equ services. Global sourcing is a competitive bidding pro prospective suppliers located throughout the world. Our purchas is organized by commodity groups for each major region of th focuses on advance, long-term sourcing through long-term o contracts. In order to ensure a consistent high-quality supply o services, we utilize common systems, policies and procedures company, including a common supplier quality improvement proce our size, we believe we have sufficient scale and purchasing enable us to continue to secure significant volume discounts separation from GM. On average, since 1993, we have reduced our ma

7

costs by about 3% to 4% per year based on a year-to-year ac comparison, excluding Delco Electronics, which was not integrat operations until December 1997.

- o Labor Relations. We emphasize the sharing of relevant inform our international and local union leadership worldwide and w the unions to jointly develop local work rules and practices. have been a part of GM, the national labor agreements negoti with the unions have applied to our workforce in the United Canada. We believe that, as a fully independent company w over our own labor relations after the Distribution, we woul right to negotiate regarding our own national and local labor directly with the unions representing our employees. We belie complete separation from General Motors will enable us, ove increase our competitiveness by establishing local work practices more consistent with those generally prevaili automotive parts industry. However, we cannot assure you as the extent to which we will be able to achieve these benefits.

- o Product Portfolio Management. We have implemented a portfolio process designed to streamline and focus our product po facilitate our emphasis on comprehensive, integrated sy solutions for customers. Under this process, our management evaluates all of our company's product lines in order to analy product supports our overall vision and strategic objectives. Delco Electronics, we streamlined our portfolio as a resul process to about 151 product lines in 1998, down from about 2

Our current product portfolio includes about 190 product lines. This reflects the integration of 30 product lines from Delco Electronics as well as new product development activities. We expect to continue to review and refine our product portfolio in light of industry trends with an emphasis on integrated systems and modules as well as featuring electronics integration.

o **Fix/Sell/Close Process.** We have adopted a "fix/sell/close" process to improve our cost competitiveness. Under this process, we evaluate our global operations and investments, including our joint ventures, on an ongoing basis to identify operations or investments not performing at desired levels. These operations or investments are placed in a category to be fixed, sold or closed. With input from our management then develops a specific plan to deal with each category in a timely manner. With respect to many of our operations in North America, both our local and international unions have cooperated with management in initiatives to improve the viability of our operations. As operations are improved or eliminated, they are removed from the category. Since 1995, this process, together with the product line consolidation process described above, has resulted in the closing of over 50 operations worldwide as well as a substantial improvement of many other operations. We will continue to monitor our operations and investments and we believe the ongoing process will continue to improve our cost competitiveness in the future. However, our ability to eliminate product lines, close and divest businesses is subject to certain restrictions under our Supply Agreement with General Motors as described elsewhere in this report.

Complete Strategic Acquisitions, Joint Ventures and Alliances. We intend to participate actively in the industry trend towards consolidation through strategic acquisitions and alliances in order to complement or fill gaps in our existing product portfolio, enhance our design and manufacturing capabilities, improve our geographic presence in selected areas and increase our access to new customers. We will be restricted from executing certain types of transactions without GM's consent for a period of time following the IPO Distribution as a result of covenants arising from our separation agreement described elsewhere in this report. In addition, we are bound for certain periods of time by certain covenants not to compete which we entered into in connection with some of our past divestitures. We do not believe these restrictions will materially impair our ability to execute this strategy.

While we currently believe that we will be able to successfully execute our business strategies outlined above, we cannot assure you in this report that our ability to execute each of the business strategies discussed above is free of numerous risks and uncertainties, including those described elsewhere in this report and in our other filings with the Securities and Exchange Commission, including our registration statement on Form S-1, dated February 1, 2007 (Registration No. 333-67333).

Research and Development

We have substantial technical and vehicle integration expertise of our extensive operating history as the in-house supplier to largest VM. We were the first supplier to produce a number of new including the first electric self-starter, in-dash radio, turn signal converter, airbag, tilt steering column, independent front-wheel energy-absorbing steering column, electric power sliding door and child safety seat. More recently, we were the first supplier brake-by-wire systems and computer-controlled engine management sy result, we have developed a comprehensive knowledge of the design, e manufacture and operation of all aspects of the automotive vehicle.

8

We believe that our engineering and technical expertise, togeth emphasis on continuing research and development, allows us to use technologies, materials and processes to solve problems for our custo bring new, innovative products to market. Delphi maintains technical centers in every major region of the world to develop and provid products, processes and manufacturing support for all of our manufact and to provide our customers with local engineering capabilities development on a global basis. As of December 31, 1998, we employe 15,000 engineers, scientists and technicians around the world. We c evaluate and enhance our engineering and technical resources and ar considering plans to reorganize our worldwide engineering and resources into a more efficient, customer-focused global network.

We believe that continued research and development activities a to maintaining our leadership position in the industry. Our total e for research, development and engineering activities were \$1.4 bil billion and \$1.6 billion in 1998, 1997 and 1996, respectively. As a have introduced over 50 new products and processes during each several years.

Intellectual Property

We have generated a large number of patents and trademarks in th of our business. Under our separation arrangements with GM, generall we own the patents, patent applications and records of inventio primarily related to components produced or sold by us and any oth that would be more valuable to us than to GM. Accordingly, GM has tra us full or partial ownership of about 2,800 patents, 640 U applications and 620 records of invention as well as the correspondi patent and patent applications. In addition, we and GM have agreed certain of our existing patents to each other. While we believe patents, inventions and licenses are, in the aggregate, important to of our business, none is individually considered material to our busi:

Although we do not rely on material "patent-protected" technological innovation, our long-term success as well as the competitiveness of our business. Innovation is evidenced by the 586 patents relating to our business have been recorded in recent years. We intend to continue to actively pursue technological innovation.

GM has transferred to us ownership of about 1,170 trademark registrations and applications, including about 70 in the United States, a number of unregistered trademarks. Our trademarks include the following: E FOREWARN(TM), Freedom(TM), Gold Dot(TM), INTELLEK(TM), M QUADRASTEER(TM) and TRAXXAR(TM).

Products and Competition

We believe that we have the largest and most diversified product offerings in the industry. Our product offerings are organized in three sectors: Electronics & Mobile Communication; Safety, Thermal & Architecture; and Dynamics & Propulsion. For more information on our product sectors, see Note 14 to the consolidated financial statements included in this report.

We conduct our business in a highly competitive industry. The automotive parts industry principally involves the supply of components and modules to OEMs for the manufacture of new vehicles, for use in their product offerings and to the aftermarket for use as parts for older vehicles. Although the overall number of our competitors has decreased due to ongoing industry consolidation, the automotive parts industry remains extremely competitive. OEMs rigorously evaluate suppliers on the basis of product quality, price competitiveness, reliability and timeliness of product design capability, technical expertise and development capability, product innovation, leanness of facilities, operational flexibility, service and overall management. Some of our competitors have substantial scale and some have lower cost structures, particularly lower overhead structures, than our company.

Our overall product portfolio is extremely broad by industry standards. Very few other Tier 1 suppliers compete across the full range of our product areas. However, we do face significant competition across all of our principal product sectors from each of the following major Tier 1 suppliers: Robert Bosch GmbH, Denso Inc. and Visteon Automotive Systems, a unit of the Ford Motor Company. Our product sector offerings and principal competitors are summarized below:

Electronics & Mobile Communication. Our Electronics & Mobile Communication product sector accounted for \$4.6 billion, or 16.1%, of our 1998 sales, excluding certain inter-sector sales which we eliminate for purposes of determining our total consolidated net sales. This sector is one of

global providers of automotive electronics products. The sector al wide variety of audio and communication systems for the vehicle. The electronics capabilities of this sector are utilized in connection w the product offerings of our two other product sectors to produc subsystems and modules designed to enhance vehicle safety, comfort, s efficiency. Our principal competitors in the Electronics & Mobile Co product sector include the following: Denso Inc., Siemens AG, Robert Mannesman VDO AG and Motorola, Inc. Our principal electronics communication product lines include the following:

Product Line -----	Description -----
Audio Systems	Audio systems and components ranging froi to integrated compact disc players, includ Monsoon(R) Audio System.
Communication Systems	Communication and information systems, incl the EyeCue(R) head up display system and m multimedia.
Advanced Controllers	Microprocessor-based engine management co and anti-lock brake controllers.
Powertrain and Engine Control Modules	Modules designed to optimize engine and transmission performance.
Collision Warning Systems	FOREWARN(R) collision warning systems are microwave-based forward, rear and side object detection systems which present warning s drivers in a wide range of formats and warnin levels.
Security Systems	Products include sounders, inclination senso glass breakage sensors, remote key actuation products and vehicle immobilization produ of which are sold under the TEXALARM(R) brand
Safety Systems	Products include frontal inside airbag c occupant positioning, adaptive restraints and roll-over sensing.

Safety, Thermal & Electrical Architecture. Our Safety, Thermal & Architecture product sector accounted for \$11.1 billion, or 39.0%, net sales, excluding inter-sector sales. This sector offers a wi products relating to the vehicle interior as well as the expertise t them into individual vehicle designs to simplify manufacturer as enhance vehicle marketability. The sector also offers thermal including powertrain cooling systems and climate control systems global mandates for alternative refrigerant capabilities. The secto global leader in the production of wiring harnesses and conn electrical power and signal distribution. Our principal competit Safety, Thermal & Electrical Architecture product sector include the Yazaki Corp., Valeo SA, Autoliv Inc., Denso Inc. and TRW Inc.

- o Interior Products. These products accounted for \$3.3 billion, o the Safety, Thermal & Electrical Architecture product sector

sales, excluding inter-sector sales. Our principal interior products include the following:

Product Line	Description
Safety/Airbag Systems	Airbag systems and modules and adaptive re technologies, including driver and passenger modules, side airbag modules and integrated wheels.
Door Modules	Integrated door hardware systems with various features of power and signal distribution, and security, heating, ventilation and air conditioning ("HVAC"), electronic control and interior trim systems.
Power Product Systems	Systems include power sliding doors, power liftgates and power decklids.
Modular Cockpits	Fully integrated interior systems, featuring electrical/electronic systems, structure and systems, steering systems, thermal systems and entertainment and safety systems.

10

o Thermal Products. These products accounted for \$2.7 billion, o the Safety, Thermal & Electrical Architecture product sector sales, excluding inter-sector sales. Our principal thermal products include the following:

Product Line	Description
Thermal Management Systems	Systems designed to optimize total vehicle management functions, maintain passenger comfort and powertrain cooling in all climates and conditions.
Climate Control Systems	Systems which include HVAC modules, compressors and condensers and are designed to maintain passenger comfort in all climates and weather conditions.
HVAC Systems and Modules	HVAC systems and modules regulate airflow, temperature, humidity and air direction. evaporators, lightweight aluminum heater core blower motor fans and compressors.
Powertrain Cooling Systems	Systems designed to optimize powertrain various driving conditions, including radiator fans and hoses.
Front End Modules	Modules feature a single-part concept, resulting in reduced product weight and size and higher system performance at lower cost.

o Power and Signal Distribution Products. These products account

billion, or 46.0%, of the Safety, Thermal & Electrical Architect
 sector's 1998 net sales, excluding inter-sector sales. Our prin
 and signal distribution product lines include the following:

Product Line -----	Description -----
Electrical/Electronic ("E/E") Systems Centers	Products and services relating to E/E sy and production, including E/E centers designe in a variety of configurations and tailo customer-specific applications.
Connection Systems	Wiring connection systems with current-carry capacity ranging from signal-level to over amps, including the GT Connection System variety of fiberoptic data network and point-to-point connection systems.
Electronic Products	Electronic products featuring micro-proc designs with custom integrated circuits and analog/digital/microcomputer/mixed design capabilities.
Advanced Data Communication Systems	Products include an optical star coupler, wh distributes data in real time via plasti fiber throughout an expandable network; and customized multiplex systems and components.
Fiber Optic Lighting Systems	DELIGHT(TM) fiber optic lighting systems ut centrally located light sources to provi throughout the vehicle.
Ignition Wiring Systems	Ignition wiring systems and components.
Sensors	Temperature sensors and multifunction sen integrate electronics into the packaging. these sensors are sold under the brand name INTELLEK (TM) .
Switch Products	Pushbutton switches, elastomer switches incorporating integrated electronics and miscellaneous specialty switches.

11

Dynamics & Propulsion. Our Dynamics & Propulsion product sector ac
 \$12.8 billion, or 44.9%, of our 1998 net sales, excluding inter-se
 This sector offers a wide range of energy and engine management syste
 to optimize engine performance and emissions control through ma
 vehicle air intake, fuel delivery, combustion and exhaust after-trea
 sector also offers all major chassis control systems--steering
 suspension and engine, with a focus on providing superior ride a
 performance, high reliability, reduced mass and improved fuel effic
 sector's steering products feature vehicle control and driveline t
 and advanced electronic controls to improve performance. Our
 competitors in the Dynamics & Propulsion product sector include the
 Robert Bosch GmbH, LucasVarity PLC, NSK Ltd., Siemens AG and TRW Inc.

o Energy and Engine Management Products. These products account billion, or 45.3%, of the Dynamics & Propulsion product sector sales, excluding inter-sector sales. Our principal energy management product lines include the following:

Product Line	Description
Air/Fuel Management	Subsystems measure, control, manage and deliver a combustible mixture of fuel and air to the combustion chamber.
Energy Storage and Conversion	The generator and battery comprise the principal electrical system in the vehicle. The battery stores energy for transfer to the starter during engine start-up; once the engine is running, the generator supplies the vehicle's electrical requirements. Among other products, we sell batteries into the aftermarket under the name described under " <u>Customers--Aftermarket</u> ."
Valve Train	Systems manage engine timing and performance to improve fuel economy, reduce emissions and increase torque and power.
Exhaust After-Treatment	Subsystems carry gas away from the engine and remove harmful chemical compounds through catalytic reaction of contaminants.
Sensors and Solenoids	Sensors, including our INTELLEK(TM) brand, monitor conditions such as presence, speed and chemical content within the vehicle. Solenoids and actuators that control mechanical movement and flow of fluids within the vehicle.
Ignition	Subsystems provide spark energy for combustion initiation of the air/fuel mixture. Coils, electronics, wires/boots and spark plugs generate and deliver a high voltage charge to the combustion chamber.
Fuel Handling	Subsystems contain and deliver fuel to the engine architecture and control evaporative emissions.
Controls	Subsystems consist of the electronic control and related software and algorithms which are customized to meet VM needs.
Advanced Propulsion Systems	New propulsion technologies include different vehicle system approaches--from powertrain integration to advanced electro-chemical engines.

o Chassis Products. These products accounted for \$3.8 billion, or the Dynamics & Propulsion product sector's 1998 net sales, excluding inter-sector sales. Our principal chassis product lines include:

following:

Product Line	Description
Intelligent Chassis Control Systems	TRAXXAR(TM) vehicle stability enhancement s integrates all major chassis control systems--steering, braking, suspension and powertrain. GALILEO(TM) intelligent brak control system combines power assist, anti-l braking functions traction control and tunabl pedal feel in a modular design.
Advanced Ride Control Suspension Systems	Manual Selectable Ride System is a controlle suspension system designed with two in driver-selectable levels of damping. Con Variable Real-Time Damping System provid modal control with continuously variable independent damping control at each corner.
Chassis Systems and Modules	Systems and modules include complete whe modules, chassis corner modules, brake corner modules, damper modules and bearings.
Brake Systems	Anti-lock brake systems feature solenoid and can accommodate traction control, variabl effort steering and other vehicle enhancemen
Suspension and Brake Components	Components include calipers, rotors, drum cylinders, boosters, drum brake assemblies absorbers and leveling height sensors.

- o Steering Products. These products accounted for \$3.2 billion, of the Dynamics & Propulsion product sector's 1998 net sales, inter-sector sales. Our principal steering product lines include following:

Product Line	Description
Steering Systems	Steering components and fully integrated Components include hydraulic pumps, steer and steering hoses.
Columns and Intermediate Shafts	Steering columns, including TILT WHEEL(TM), LUXURY-TILT(TM) power adjustable wheel funct and manual tilt and telescope. Interme offerings include cardan joint, flexible pot-style joint, spline shaft and concentric isolator.
Driveline Systems	Halfshafts that transmit the power of th engine to the wheels. Integrated halfsh in a wide variety of joint types and sizes.
Fuel Efficiency and Performance Steering Systems	E-STEER(TM) Electric Power Steering is and all-electric, engine independent system space efficiency, environmental compatibil

fuel efficiency.

E-H-STEER(TM) Electro-Hydraulic Power Steering features optional variable-assist steering.

QUADRASTEER(TM) Four Wheel Steering features short turning radius, enhanced control and handling. MAGNASTEER(TM) Magnetic Variable Steering features variable effort power steering.

13

Customers

General. We currently sell our products to all of the major VM expect our business with customers other than GM to increase over time. We expect that GM will remain our largest customer by far for a significant period of time due to the long-term nature of sales contracts in our industry and our strong customer-supplier relationship with GM and the new supply agreement entered into with GM in January 1999 in connection with our separation agreement (the "Supply Agreement") (See "Arrangements between GM and Delphi Corporation" in the "Supplemental Information" section of our 1998 Annual Report). We supply parts to each regional sector of GM's Operations, including its automotive operations in the United States, Mexico ("GM-North America"), and to GM's automotive operations throughout the rest of the world ("GM-International"). In addition, we sell our products to the worldwide aftermarket for replacement parts. Currently, most of our sales are to GM's Service Parts Operations ("GM-SPO") for replacement parts, principally to the North American aftermarket.

The following table shows how our total sales were derived for the last three years. The percentages for 1998 were affected by work stoppages at certain GM and Delphi locations in the United States in June and July 1998.

Total Sales			
Year Ended			
December 31,			
Customer	1998	1997	1996
-----	----	----	----
GM-North America.....	62.2%	65.4%	66.6%
GM-International.....	11.0	11.2	11.7
GM-SPO.....	5.4	5.1	5.2
-----	----	----	----
Total GM.....	78.6	81.7	83.5
Other Customers.....	21.4	18.3	16.5
-----	----	----	----
	100.0%	100.0%	100.0%
	=====	=====	=====

For purposes of the foregoing table, "total sales" include all sales from joint ventures and other investments in which we own a minority interest, even though these sales are not reflected in our sales as reported.

consolidated financial statements included elsewhere in this report. We have historically tracked our sales by customer for internal purposes and include our minority joint venture sales for this purpose because, among other things, they principally relate to our joint ventures outside the United States where we frequently have significant influence over product development, technology and customer relationships but do not own more than 50%. In more than 50% of these joint ventures, in most cases, we would include their sales in our consolidated sales. In addition, many of these joint ventures use our technologies. If we did not include these sales, the percentage of sales above for GM would be higher.

Awarded Business. We have a substantial base of awarded business including business with GM-North America under arrangements that are covered by the Supply Agreement. We track as "awarded business" the future sales we have a strong expectation of realizing based on various types of vehicle programs and various assumptions we make regarding, among other things, the volume of vehicle production, option mix and product pricing. On that basis, we believe that we currently have a solid foundation of awarded business to grow our company. We cannot assure you, however, that we will realize any specific amount of awarded business because it remains in all cases subject to a number of important risks and uncertainties. We currently estimate sales from our existing awarded business to be about \$28 billion for 1999, \$22 billion for 2003. The amount of our awarded business declines over the life of the vehicle programs in which we are currently participating and may eventually terminate. However, particularly in the later years, we expect that we will be awarded additional business from GM and other customers.

Sales to General Motors. In 1992, General Motors launched a reorganization of its automotive business to streamline its business and downsize its North American automotive operations. At that time, GM announced its intention to begin filling its procurement needs on a global basis. GM strives through this global sourcing strategy to leverage its purchasing power by sourcing its products on a global basis and to increase competition for its business among its suppliers on the basis of quality, service, technology and price. Pursuant to this initiative, GM has invited its suppliers worldwide with the opportunity to bid for GM-North America's automotive parts requirements historically sourced with us. As a result, our share of GM-North America's automotive parts requirements has declined since 1992.

14

We believe that we are and will continue to be able to compete for GM-North America business because of the high quality of our products, ongoing cost reduction efforts and our product and technological innovation. As a principal supplier to GM, we periodically have discussions with GM about its future vehicle programs and our long-term technology and product development. Although we have no commitments to GM in this regard, we will continue these discussions for some period of time after our separation based on our strong customer-supplier relationship. However, we do not expect a significant portion of GM-North America's automotive parts requirements which we

the prices we charge to GM-North America to continue to decline over several years. As a result, we also expect that our total sales decline over the next several years. Through our strategy of pursuing increased business with customers other than GM-North America, including additional sales to GM-International, however, we will mitigate these effects and increase our total sales.

We have historically supplied a lower percentage of GM-International's automotive parts requirements than the percentage of parts we have supplied to GM-North America. Until the last several years, we were operated as a captive, North America-based supplier to GM's North American operations. As a result, we did not focus heavily on our global business opportunities or those with GM-International. We also did not have the global presence effectively for GM-International business. As noted above, we have successfully expanded our global presence over the last several years and intend to compete for additional GM-International business.

Supply Agreement. The Supply Agreement we have entered into with General Motors in connection with our separation provides that all existing contracts between General Motors and our company as of January 1, 1999 will remain in effect, including the pricing, duration and purchase order conditions. However, the timing of payments from GM to us under the contracts will change. The Supply Agreement provides us with certain rights to provide on competitive terms the first replacement cycle of all products in the United States and Canada which we were providing to GM as of 1999, provided that GM sources such replacement programs prior to 2002 and we are competitive in terms of design, quality, price, technology as these factors relate to all aspects of bid packages submitted by other suppliers. For more information regarding the Supply Agreement, see "Arrangements Between GM and Delphi--Supply Agreement".

Other VMs. Although General Motors is by far our largest customer worldwide, our business with all of the other major VMs is significant. Our top five VMs other than GM are DaimlerChrysler, Toyota, Fiat, Volkswagen, and Renault. Combined sales to these customers accounted for about 8% of our total sales, and our top ten VM customers other than GM accounted for about 12% of our total 1998 net sales. In determining these percentages, we have excluded sales of entities in which we have a minority interest.

Substantially all of our existing contracts with these non-GM customers which we entered into while we were a business sector of GM, require the consent of the customer in order to assign or transfer the contract. In our discussions with all of our major non-GM customers regarding our separation from GM and our intent to continue to perform under these existing contracts, the extremely large number of existing contracts with our non-GM customers and the positive feedback received during discussions with our major customers, we do not currently intend either to seek consents from our customers into new contracts with these customers in connection with our separation from GM. Based on these discussions, we do not believe that our separation will adversely affect our business with these customers. However,

assure you in this regard.

Aftermarket. We sell products to the worldwide aftermarket as parts for current production and older vehicles. In 1998, our revenues of \$2.1 billion represented 7.2% of our total net sales. We sell most of these products into the North American aftermarket arrangements with GM-SPO, the principal aftermarket sales organization. GM-SPO distributes replacement parts to the aftermarket primarily through automobile dealerships and independent distributors, including distributors and direct retailers. Outside North America, we primarily sell into the aftermarket through independent distributors.

Under the terms of our separation from GM, we and GM have agreed, subject to certain exceptions, that GM-SPO will be the exclusive distributor of our products into the U.S. aftermarket and we will be the exclusive distributor of these products to GM-SPO through at least December 31, 2000. GM-SPO markets our products under a number of brand names, including Freedom(R) and Voyager(R). In connection with our separation from GM, we have agreed with GM-SPO to split the ownership of these aftermarket brands. We own the ACDelco brand and any AC and Delco derivatives and trademarks as described further under "Arrangements Between Delphi and GM Motors--Intellectual Property," we have been granted a perpetual, royalty-free license to use the trade name "Delco Electronics" trademarks "DELCO" and "DELCO ELECTRONICS" in connection with our products as well as a worldwide license to use the trademarks "AC," "AC Delco" until January 1, 2000. We own the Freedom brand, although we may not use the brand in the United States until the expiration of our arrangements with GM-SPO. GM-SPO will own the Voyager battery brand, but may only sell batteries it purchases from us. For more information about these arrangements, see "--Arrangements Between GM and Delphi --Aftermarket Sales."

15

We have historically derived our principal aftermarket revenues from our relationship with GM-SPO. We believe that there exist significant opportunities in our revenues from sales in the aftermarket and to augment the "Del" presence in the aftermarket over time by establishing new supply relationships with various participants along the aftermarket distribution channel. We believe that our ability to sell products developed for the VM market to our customers can reduce the impact of adverse changes in demand for new products. With respect to the aftermarket in the United States, we intend to continue to sell products through GM-SPO until the expiration of the terms of the arrangements described above. Outside the United States, we are focusing on the aftermarket business in Europe and South America.

We believe that incremental aftermarket sales opportunities will be available to us following our complete separation from GM. However, growth in competitive aftermarket business will take time to achieve in light of the significant investment in an aftermarket distribution infrastructure required.

Non-VM Customers. We are also diversifying by supplying certain products, including connection systems, flex-circuits wiring, instrument and map sensors, to new customer areas, such as the aerospace, motor computer industries. Our non-VM customers include Boeing Harley-Davidson Inc. and Silicon Graphics Inc. We are also relationships with Tandem Computers Inc., Storage Technologies Inc. These non-VM sales accounted for only a nominal amount of total 1998 net sales. We believe that opportunities exist to increase in this area and we intend to continue to work to expand our sales customers.

Variability in Delphi's Business

There are a number of factors that contribute to variability in our business. The variability can produce significant fluctuations in sales and earnings quarter to quarter, and in some cases from year to year. The primary factors that affect variability are summarized below.

Automotive Industry. Almost all of our business is directly automotive sales and production by our customers, which are highly dependent on general economic conditions and other factors, including spending and preferences. Any significant reduction in automotive production by our customers would have a material adverse effect on our business.

Regional. We have substantial operations in every major region of the world and economic conditions in these regions often differ. The recent downturn in Asia and in Brazil and other regions of Latin America, Mexico, has led to reductions in demand for automobiles and components in those areas and has had an adverse effect on our financial results to the extent that these conditions continue to worsen, or spread to other regions. Particularly in the United States, our business will continue to be affected.

Seasonal. Our business is moderately seasonal as our primary North American customers historically halt operations for about two weeks in July and one week in December. In addition, third quarter automotive production is traditionally lower as new models enter production. Accordingly, fourth quarter results may reflect these trends.

Purchasing

We purchase various raw materials for use in our manufacturing process. Our principal raw materials we purchase include platinum group metal, aluminum, steel, lead and resins. All of these raw materials, except platinum group metals we use to produce our catalytic converters, are obtained from numerous sources. Currently, all of the platinum group metals used in Delphi for catalytic converters produced for GM are purchased by us from suppliers of these metals which are located principally in Russia and Africa. In light of the potential political instability in these areas,

maintains a three to four month inventory of platinum group metals. Delphi normally purchases the platinum group metals it uses in catalytic converters from its customers other than GM directly from suppliers.

We have not experienced any shortages of raw materials or other products. We normally do not carry inventories of raw materials or finished products in excess of those reasonably required to meet our production and distribution schedules, except for the three to four month supply of platinum group metals.

16

Environmental Compliance

We are subject to the requirements of federal, state, local, and international environmental and occupational safety and health laws and regulations. These include laws regulating air emissions, water discharge and waste management. We have an environmental management structure designed to facilitate our compliance with these requirements. We cannot assure you, however, that we are at all times in compliance with all such requirements. Although we are and will continue to make capital and other expenditures to comply with environmental requirements, we do not expect capital or other expenditures for environmental compliance to be material in 1999 or 2000. Environmental requirements are complex, change frequently and have tended to become more stringent over time. Accordingly, we cannot assure you that these requirements will not change or become more stringent in the future in a manner that will have a material adverse effect on our business.

We are also subject to environmental laws requiring the investigation and cleanup of environmental contamination. We are in various stages of investigation and cleanup at our manufacturing sites where contamination has been alleged. As of December 31, 1998, Delphi had recorded a reserve of \$20 million for such environmental investigation and cleanup. We cannot assure you that our environmental cleanup costs and liabilities will not exceed the amount of our current reserve.

We have entered into certain arrangements with General Motors relating to the reallocation of environmental liabilities relating to our business as a result of our separation from General Motors. For more information, see "--A Between GM and Delphi --Real Estate and Environmental."

Arrangements Between GM and Delphi

The separation of Delphi from General Motors and the transactions undertaken in connection therewith are being effected pursuant to the Separation Agreement, dated December 22, 1998, to which Delphi and General Motors are parties (as amended from time to time, the "Separation Agreement"). In addition, we have entered into certain ancillary agreements contemplated by the Separation Agreement (collectively, as amended from time to time, the "Ancillary Agreements") and certain other agreements which govern the interim and ongoing relationships between us and GM. The Ancillary

include, among others, agreements relating to the IPO and the Distribution of products to GM, employee matters, tax matters, intellectual property, real estate and environmental matters, product liability and the performance of certain interim services. The Ancillary Agreements also require us to work with GM in all respects to complete the Distribution and to register our rights for GM in the event the Distribution is not completed without GM divesting itself of all of its Delphi Common Stock.

Certain international, intellectual property and real property relating primarily to the business of Delphi are still held by our affiliates, pending receipt of consents or approvals or satisfactory applicable requirements necessary for the transfer of such assets to us. We do not believe that these assets and operations are, individually or in the aggregate, material to our company. However, the information included in this report, including our consolidated financial statements, assumes the completion of all such transactions. See "International Agreements." In addition, certain technology assets relating primarily to our business are owned by GM or its affiliates, pending receipt of consents necessary for the transfer of such assets to Delphi, or may be retained by GM if consents to the transfer cannot be obtained. Also, certain assets and liabilities relating to our operations working under collective bargaining agreements will be transferred to us in connection with the Distribution. Capitalized terms which we use in this report but do not otherwise define below or elsewhere herein have their meanings as set forth in the Separation Agreement.

All of these agreements were made in the context of a parent-subsidiary relationship and were negotiated in the overall context of our separation from GM. The terms of these agreements may be more or less favorable to us than they had been negotiated with unaffiliated third parties.

We have set forth below a summary description of the Separation Agreement and certain of the Ancillary Agreements. This description, which summarizes the material terms of such agreements, does not purport to be complete. It is qualified in its entirety by reference to the full text of such agreements. Certain of these agreements, including the Separation Agreement, the Distribution Agreement and the Registration Rights Agreement, the Business Relationship Agreement, the U.S. Employment Agreement and certain tax allocation agreements have been filed as exhibits to this report and are incorporated by reference.

17

Separation Agreement. The Separation Agreement, which became effective on January 1, 1999, sets forth our agreements with GM with respect to the corporate transactions required to effect the transfers of assets and the assumptions of liabilities necessary to separate our company from GM. Other agreements governing our relationship thereafter.

Transfer of Assets and Assumption of Liabilities. General. Assets to be transferred, or agreed to transfer, or to cause its subsidiaries

representatives to transfer, the Delphi Assets to our compa
subsidiaries, and we and our subsidiaries have assumed, or agreed
and have agreed to pay, perform, satisfy and discharge on a timely
Delphi Liabilities in accordance with their respective terms.
expressly set forth in the Separation Agreement or in any
Agreement, GM has not made any representation or warranty with res
Delphi Asset and the Delphi Assets are being transferred on an "a
is" basis.

Transition Services. The Separation Agreement provides that if
any services that GM, or its affiliates or their suppliers, were p
us immediately prior to January 1, 1999 and any of such services i
provided to us pursuant to any of the Ancillary Agreements, GM a
our written request, to use its reasonable best efforts to pr
service to us until January 1, 2000. GM is not required to p
service which GM would not be legally permitted to provide to a t
We must use all commercially reasonable efforts to obtain any
services provided pursuant to this provision of the Separation Agr
a source other than GM before January 1, 2000. If we cannot o
transition service from a source other than GM and such service i
to operate the Delphi Automotive Systems Business in substantial
manner as it was conducted immediately before January 1, 1999, GM
to provide such transition service to us for an additional pe
exceed six months.

For the majority of the transition services provided to us by
to the Separation Agreement and for services provided to us by GM
the Ancillary Agreements, we must pay GM on or prior to the fif
following receipt of an invoice:

(1) in the case of any transition service provided pursuant to the
Agreement or pursuant to an Ancillary Agreement in which a pay
or formula has not been set forth, an amount equal to
historically allocated to our business for such services as of
1999, adjusted to reflect any changes in the nature, cost
services provided; provided that, if no cost has histori
allocated to us for such service, then we shall pay to GM:

- (a) that portion of the total costs borne by GM which GM would have
allocated to Delphi under its internal allocation formula; plus
- (b) any direct user charges provided for in clause (a) above; plus
- (c) any other reasonable charges necessary to make GM whole for the
provision of such services; or

(2) in the case of any service to be provided pursuant to an Ancillary
Agreement in which a payment amount or formula has been set forth,
amount owed pursuant to the terms of such Ancillary Agreement.

If we make payment later than the forty-fifth day after receive an invoice, we must pay interest on the amount due based on Rate. For any such services that are provided to us directly parties, we will pay such third party directly where such direct permissible. These payment provisions do not apply to services provided pursuant to any real estate leases, any health care services pursuant to Employee Matters Agreement, and certain other agreements. In addition, we are responsible for providing certain transitional services to GM with certain businesses retained by GM.

Ancillary Agreements. Except with respect to the provisions regarding payment for transition services described above, to the extent the Ancillary Agreement expressly addresses any matters addressed in the Separation Agreement, the terms and conditions of the Ancillary Agreement will govern the rights and obligations of the parties regarding such matters. We must use all commercially reasonable efforts to obtain services provided to us by GM under the terms of those Ancillary Agreements relating to

18

transition services from a source other than GM. Certain of the Agreements provide that the transition service may be extended beyond the termination of the transition periods provided for therein and we will, after the Distribution, we would negotiate with GM at arm's length regarding any such extension, including fair market value pricing for such services.

Indemnification. We have agreed to indemnify, defend and hold General Motors and each of its subsidiaries and their successors-in-interest, and each of their respective past and present representatives against any losses, claims, damages, liabilities arising, whether prior to or after the Contribution Date, in connection with the Delphi Liabilities and/or our conduct of our business affairs after the Contribution Date. Certain of the Agreements provide for indemnification between us and GM relating to the same as such agreements. The Separation Agreement and certain of the Agreements specify certain procedures with respect to claims subject to indemnification and related matters.

Claims and Litigation. The Separation Agreement provides for allocation of the liability between us and GM for certain litigation relating to or arising out of the Delphi Automotive Business.

o **Product Liability.** GM has retained responsibility for a liability actions relating to products we manufactured prior to 1999 and sold or otherwise supplied to GM either before or after Responsibility for product liability actions relating to manufacture on or after January 1, 1999 and sell to GM shall be in accordance with the agreements for such sales. We will be

for liability relating to all products we sold at any time or future to customers other than GM. In connection therewith, indemnify GM against, and reimburse GM for costs associated claims for which we are liable, and GM will indemnify us and reimburse us for costs associated with, the claims for which we retained liability.

o General Litigation. With respect to general litigation claims assumed the liability for all new claims related to the Delphi Systems Business and for certain specified claims. GM has agreed certain other specified claims at our expense and GM has retained liability for certain other specified claims. In connection with the will indemnify GM against, and reimburse GM for costs associated with, claims for which we are liable, and GM will indemnify us against and reimburse us for costs associated with, the claims for which we retained liability.

o Employment-Related Claims. We have assumed the liability specified employment-related claims and we will indemnify GM such claims and reimburse GM for any legal or other expenses incurred by GM in connection with such claims. Certain other related claims will be jointly defended by us and GM. We have responsibility for employment related claims regarding all Delph and Delphi Terminated Employees whether incurred before o Contribution Date. We will mutually determine with GM how new c be treated. However, U.S. claims for pension and welfare ben salaried employees who retire on or before the Contribution Date employees who retire on or before October 1, 1999 will responsibility of GM.

We have agreed with GM to cooperate with each other in the defense and all claims covered by these provisions of the Separation Agreement.

Insurance. The Separation Agreement provides that during beginning on the Contribution Date and ending on the earlier of the completion of the Distribution or the first anniversary of the Contribution Date (the "*Insurance Transition Period*"), GM shall, under certain conditions and exceptions, maintain policies of insurance for the benefit of Delphi or any of its affiliates, directors, or other covered parties, which are comparable to those generally maintained by GM. The Separation Agreement sets forth procedures we must follow in asserting claims, reimbursing GM for premium expenses and other related matters during the Insurance Transition Period. Following the expiration of the Insurance Transition Period, except as provided in the Separation Agreement, we will be responsible for obtaining and maintaining our own insurance programs.

Dispute Resolution. The Separation Agreement contains provisions that shall govern, except as provided in any Ancillary Agreement, the resolution of all disputes, controversies or claims that may arise between us and the Company.

Separation Agreement provides that the parties will use all reasonable efforts to settle all disputes arising in connection with the Separation Agreement without resorting to mediation, arbitration or otherwise. If these efforts are not successful, any party may request non-binding mediation by delivering notice to the other party of the dispute and expressly requesting mediation of the dispute. If mediation, the parties disagree regarding the mediator's recommendation, the dispute will be submitted to binding arbitration in accordance with the Separation Agreement.

19

of the Separation Agreement. The Separation Agreement contains provisions for the selection of a three-arbitrator panel to act by majority vote in the conduct of the arbitration hearing, including certain limitations on the discovery rights of the parties. We and GM have agreed that all other matters related to the Supply Agreement and certain other Ancillary Agreements are exempt from the dispute resolution established in the Separation Agreement.

Certain Definitions Relating to the Separation Agreement. Set forth below are certain defined terms contained in the Separation Agreement:

"Contribution Date" means January 1, 1999.

"Delphi Assets" means all of GM's right, title and interest in assets, excluding cash and cash equivalents, that:

(1) except as set forth on a schedule to the Separation Agreement or otherwise provided in the Separation Agreement or in an agreement, are reflected in the Delphi Financial Statements as of the Contribution Date, including assets written off or expensed but still used by Delphi, which Delphi can demonstrate to GM's reasonable satisfaction; or

(2) are to be transferred pursuant to Section 2.01(c) of the Separation Agreement, which relates to assets relating to certain Delphi operations; or

(3) are acquired by the Delphi Automotive Systems Business after the Contribution Date of the Delphi Financial Statements and would be reflected in the financial statements of Delphi as of the Contribution Date if the financial statements were prepared using the same accounting principles under which the Delphi Financial Statements were prepared; or

(4) are expressly provided by the Separation Agreement or any other agreement to be transferred to Delphi; or

(5) are listed on the schedule to the Separation Agreement that identifies the facilities to be transferred to Delphi; or

(6) except as otherwise provided in an Ancillary Agreement or other agreement of the parties, are used exclusively by the Delphi Systems Business as of the Contribution Date;

provided, unless the parties otherwise expressly agree, accounting principles under which the Delphi Financial Statements prepared would have required any asset described in the clause () be reflected in the Delphi Financial Statements as of the date the such asset shall be included in the "Delphi Assets" only if so reflected.

"Delphi Automotive Systems Business" means the business conducted by the Delphi Automotive Systems business sector of General Motors at any time before the Contribution Date, including:

(1) all business operations whose financial performance is reflected in the Delphi Financial Statements;

(2) all business operations initiated or acquired by the Delphi Automotive Systems business sector of GM after the date of the Delphi Financial Statements; and

(3) all business operations that were conducted at any time in the Delphi Automotive Systems business sector of GM or any predecessor of such business sector, including, without limitation, GM Automotive Components Group, but were discontinued or discontinued prior to the date of the Delphi Financial Statements or transferred or disposition to any other business sector of GM.

"Delphi Financial Statements" means the consolidated financial statements and the notes thereto of Delphi for the nine months ended September 30, 1998 set forth in the registration statement relating to our IPO as amended, December 22, 1998, the date of the Separation Agreement. Such statements are substantially similar to the financial statements for the nine months ended February 4, 1999 included in the prospectus dated February 4, 1999 related to the IPO which is on file with the Commission.

"Delphi Liabilities" means all of the Liabilities of General Motors as of the Contribution Date.

20

(1) except as otherwise set forth on a schedule to the Separation Agreement or as otherwise provided in the Separation Agreement or in any other agreement of the parties, are reflected in the Delphi Financial Statements outstanding at the Contribution Date; or

(2) are to be transferred pursuant to Section 2.01(c) of the Separation Agreement, which relates to assets relating to certain in-process operations; or

(3) arise in connection with the Delphi Automotive Systems Bus the date of the Delphi Financial Statements and would be re financial statements of Delphi as of the Contribution D. financial statements were prepared using the same accounting under which the Delphi Financial Statements were prepared; or

(4) are expressly provided by the Separation Agreement or an Agreement to be transferred to and assumed by Delphi; or

(5) except as otherwise provided in an Ancillary Agreement or ot agreement between the parties, are related to or arise o connection with the Delphi Assets; or

(6) except as otherwise provided in an Ancillary Agreement or ot agreement of the parties, are related to or arose ou connection with the Delphi Automotive Systems Business, incl not limited to the covenants not to compete entered into by the Contribution Date set forth on a schedule to the Agreement, whether before or after the date of the Delphi Statements;

provided, unless the parties otherwise expressly agree, accounting principles under which the Delphi Financial State prepared would have required any liabilities described in clause (be reflected in the Delphi Financial Statements as of the date the such liabilities shall be considered to be "Delphi Liabilities" reflected.

"Liabilities" means any and all debts, liabilities, assurances, commitments and obligations, whether fixed, con absolute, asserted or unasserted, matured or unmatured, liq unliquidated, accrued or not accrued, known or unknown, due or to whenever or however arising, including, without limitation, whet out of any contract or tort based on negligence or strict liab whether or not the same would be required by generally accepted principles to be reflected in financial statements or disclosed i thereto.

IPO and Distribution Agreement. We have entered into an Init Offering and Distribution Agreement (as amended from time to tim and Distribution Agreement") with GM which governs our respective duties with respect to the IPO and the Distribution, and sets fo covenants we have agreed to for various periods following the Distribution. Although GM has announced that it currently plans the Distribution, and we have agreed to cooperate with GM in all complete the Distribution; it is not obligated to do so. We cannot as to whether or when the Distribution will occur.

The Distribution. We have agreed that we will cooperate wit respects to accomplish the Distribution and, at GM's direction, pr

all actions necessary or desirable to effect the Distribution, in registration under the Securities Act of 1933, as amended (the "Act"), of GM's shares of our capital stock. General Motors has discretion to determine whether to proceed with all or part of the Distribution and all terms of the Distribution, including the form and terms of any transaction(s) and/or offering(s) to effect the Distribution and the timing of and conditions to the consummation of the Distribution. In the event that GM determines that it no longer intends to proceed with the Distribution, GM must provide us notice to such effect. Upon such notification, GM's rights and our obligations under the Rights Agreement described below become immediately effective.

Preservation of the Tax-Free Status of the Distribution. General Motors intends for the Distribution to qualify as a tax-free distribution under Section 355 of the Code to GM and its stockholders. On January 1, 2007, we received from the IRS a private letter ruling (the "IRS Ruling") having the effect. In connection with GM's request for the IRS Ruling, we made certain representations and warranties to GM regarding our company and our operations. We have also agreed to certain covenants in the IPO and Distribution Agreement intended to preserve the tax-free status of the Distribution.

21

General Motors may take any action otherwise prohibited by these covenants only if it is determined, in its sole and absolute discretion, that such action is necessary to avoid jeopardize the tax-free status of the Distribution. See "--Cooperativa Matters." Certain of these covenants are described in greater detail below.

- o Stock Issuance. Prior to the completion of the Distribution, we have agreed not to issue or agree to issue shares of our capital stock in an amount that would result in GM owning less than 80% of the total voting power of all outstanding shares of our voting stock and/or 80% of any other class and/or series of Delphi capital stock. This covenant will not prohibit us from issuing stock options and restricted stock awards to our employees so long as we repurchase sufficient shares of our capital stock prior to the date when such options and awards become exercisable to ensure that GM's ownership remains at or higher than 80% and GM follows our procedures to comply with this covenant.

- o Certain Acquisition Transactions. Until two years after the completion of the Distribution, or, if GM determines not to complete the Distribution, until the last date on which GM distributed any Delphi common stock in connection with the Distribution, we have agreed not to enter into or consummate any transaction or series of transactions which would result in any person acquiring or having the right to acquire shares of our capital stock that would comprise 50% or more of either the total outstanding shares of our capital stock or the total combined voting power of our outstanding voting stock.

- o Continuation of Active Trade or Business. Until two years

completion of the Distribution, or, if GM determines not to complete the Distribution, the last date on which GM distributed any Delphi common stock in connection with the Distribution, we have agreed to continue the active trade or business, within the meaning of Section 1361(b)(1) of the Internal Revenue Code, of our company as we conduct it immediately prior to the completion of the Distribution. During such time, we have agreed not to:

- o liquidate, dispose of or otherwise discontinue the conduct of any portion of our active trade or business with a value in excess of \$1 billion; or

- o dispose of any business or assets that would cause our company to be operated in a manner inconsistent in any material respect with the business purposes for the Distribution as described to the counsel in connection with GM's request for the IRS Ruling.

Also, until two years after the completion of the Distribution, we have agreed not to liquidate, dispose of, or otherwise discontinue the conduct of any portion of the active trade or business of our company. Any such liquidation, disposition or discontinuance would breach the covenants described below regarding our continuity of business.

- o Continuity of Business. Until two years after the completion of the Distribution, or, if GM determines not to complete the Distribution, the last date on which GM distributed any Delphi common stock in connection with the Distribution, we have agreed that:

- o we will not voluntarily dissolve or liquidate; and

- o except in the ordinary course of business, neither we nor our direct or indirect subsidiaries will sell, transfer, or dispose of or agree to dispose of assets, including any capital stock of our subsidiaries, that, in the aggregate, represent more than:

- (x) 60% of our gross assets; or

- (y) 60% of the consolidated gross assets of us and our subsidiaries

For this purpose, we are not deemed to directly or indirectly own any subsidiary unless we own, directly or indirectly, shares constituting

- o 80% or more of the total combined voting power of all outstanding shares of voting stock of such subsidiary; and

- o 80% or more of the total number of outstanding shares of each series of capital stock of such subsidiary other than voting stock.

o Discharge of Intracompany Debt. Prior to the first date on distributes any Delphi common stock in connection with the Distribution, we have agreed to fully discharge and satisfy all debt that we owe GM for any purpose, debt does not include payables arising in the ordinary course of business. Until two years after the completion of the Distribution, if GM determines not to complete the Distribution, the last date on which we distributed any Delphi common stock in connection with the Distribution, we will not be able to have any such indebtedness with GM.

In the event that GM notifies us that it no longer intends to complete the Distribution and GM has not yet distributed Delphi common stock, these covenants to preserve the tax-free status of the Distribution will terminate.

Other Covenants Regarding Tax Treatment of the Transaction GM intends the transfer of assets and liabilities from GM to Delphi as contemplated by the Separation Agreement (the "Contribution") as a reorganization under Section 368(a)(1)(D) of the Code (a "D Reorganization"). Until two years after the completion of the Distribution, we have agreed not to take, or permit any of our subsidiaries to take, any action or enter into any transaction or series of transactions that are reasonably likely to jeopardize the tax-free status of the Distribution or the qualification of the Contribution as a D Reorganization, in any action or transaction that would be reasonably likely to be inconsistent with any representation made to the IRS or tax counsel. We may take any action that would otherwise violate this covenant only if GM has determined in its sole and absolute discretion, that such action or transaction would not jeopardize the tax-free status of the Distribution or the qualification of the Contribution as a D Reorganization.

Cooperation on Tax Matters. We and GM have agreed to certain covenants with respect to the tax-related covenants in the IPO and Distribution Agreement. We are required to notify GM if we desire to take any action prohibited by the tax-related covenants described above. Upon receipt of notification, if GM determines that such action might jeopardize the tax-free status of the Distribution or the qualification of the Contribution as a D Reorganization, GM has agreed to elect either to:

- o use all commercially reasonable efforts to obtain a private letter ruling from the IRS or a tax opinion that would permit us to take the desired action, and we have agreed to cooperate in connection with such efforts; or

- o provide all reasonable cooperation to us in connection with obtaining such an IRS ruling or tax opinion.

In either case, GM has agreed to bear its reasonable costs and expenses in obtaining such an IRS ruling or tax opinion.

Indemnification for Tax Liabilities. We have generally agreed to

GM and its affiliates against any and all tax-related losses incurred in connection with any proposed tax assessment or tax control respect to the Distribution or the Contribution to the extent caused by us of any of our representations, warranties or covenants in the IPO and Distribution Agreement. This indemnification does not include any actions which GM permits us to take as a result of a determination of tax-related covenants as described above.

Other Delphi Covenants. General Motors currently owns a portion of our common stock. As a result, GM will continue to include "subsidiary" for various financial reporting, accounting and other purposes. Accordingly, we have agreed to certain covenants in the IPO and Distribution Agreement. Certain of these covenants are described below:

- o Covenants Regarding the Incurrence of Debt. So long as we are a significant stockholder of our company, the amount of our indebtedness borrowed money will affect GM's financial position. Thus, we are subject to certain limitations on our ability to incur debt:

- o For so long as GM continues to own at least 50% of our common stock, without GM's prior written consent, which it may exercise at its sole and absolute discretion, we will not, and will not permit, our subsidiaries to:

- o create, incur, assume or suffer to exist any Indebtedness of an aggregate of \$5.0 billion outstanding at any time; however, that we may make an acquisition as a result of which Indebtedness would exceed \$5.0 billion so long as both the target has an FFO to Debt Ratio of at least 20% and our Indebtedness after giving effect to the acquisition, including duplication, any Indebtedness incurred in connection with the acquisition and any indebtedness of the acquisition target become our Indebtedness as a result of such acquisition, will not be greater than \$6.0 billion; and

23

- o consummate, or agree to consummate, any acquisition of an acquisition target with an FFO to Debt Ratio less than 20% if Adjusted Indebtedness would not exceed \$5.0 billion.

For purposes of these covenants, the following terms have the following meanings:

"Adjusted Indebtedness" means, with respect to any proposed acquisition, the sum of:

- (1) our Indebtedness immediately after giving effect to the acquisition, including, without duplication, any Indebtedness incurred in connection with the acquisition and any indebtedness

the acquisition target that will become our Indebtedness of such acquisition; and

- (2) the amount by which the number described in clause definition of "FFO to Debt Ratio" would need to be reduced for the acquisition target's FFO to Debt Ratio to be equal

"Indebtedness" means the sum of:

- (1) the aggregate principal amount of our and our subsidiar long-term and short-term liabilities for borrowed money capitalized leases, as determined for purposes of our c financial statements; and

- (2) the aggregate amount attributable to all factoring or sec of receivables and other financial assets by us and our s in excess of \$1.2 billion.

"FFO to Debt Ratio" means, for any acquisition target, as of prior to the proposed acquisition, the percentage determined b

- (1) the sum of such acquisition target's net income plus d and amortization for the last four full fiscal qu determined for purposes of its consolidated financial sta
- (2) the additional Indebtedness that would be incurred in with such proposed acquisition, including any indebted acquisition target that will become our Indebtedness as such proposed acquisition.

o Other Covenants. For so long as GM continues to own at least outstanding common stock, we have agreed that:

owe will not, without GM's prior written consent, which it m in its sole and absolute discretion, take any action which has of limiting GM's ability to freely sell, pledge or otherwise shares of our common stock or limiting the legal rights of or benefit to GM as a Delphi stockholder in a manner not app Delphi stockholders generally; this means that, among other will not, without GM's prior written consent, which it may its sole and absolute discretion, alter our Rights Plan, or an stockholder rights plan, in a manner that would result in GM' of our common stock causing the rights to detach or become exerc

owe will not, without GM's prior written consent, which it m in its sole and absolute discretion, issue any shares of comm any rights, warrants or options to acquire our common stock giving effect to such issuance GM would own less than 50% outstanding shares of our common stock; and

to the extent that GM is a party to, or enters into, any agreement that provide that certain actions of GM's subsidiaries may result in breach or default under such agreements, and we have been the existence of such agreements, we will not take any action that result in GM being in breach or default under any such agreement.

o Financial Information. We have agreed that, for so long as GM is required to consolidate our results of operations and financial

24

to account for its investment in our company, we will provide financial information regarding our company and our subsidiaries; copies of all quarterly and annual financial information and other documents we intend to file with the SEC prior to such filing as final copies upon filing; provide GM with copies of our budget and financial projections, as well as the opportunity to meet with our management to discuss such budgets and projections; consult with GM regarding the content of earnings releases; and cooperate fully, and our accountants to cooperate fully, with GM in connection with any of our filings. This covenant is subject to appropriate confidentiality provisions to protect the confidentiality commitments we have made to our customers.

o Auditors and Audits; Annual Statements and Accounting. We have agreed that, for so long as GM is required to consolidate our results of operations and financial position or account for its investment in our company, we will not change our auditors without GM's prior written consent, which, if unreasonably withheld, and will use our best efforts to enable our auditors to complete their audit of our financial statements such that they issue their opinion the same date that they date their opinion on GM's financial statements; provide to GM and its auditors all information required to meet its schedule for the filing and distribution of its financial statements; make available to GM and its auditors work papers relating to the annual audit of our company as well as access to the personnel conducting the annual audit and our subsidiaries' books and records so that our auditors may conduct reasonable audits relating to our financial statements; adhere to certain specified accounting standards; and notify and consult with GM regarding any changes to our accounting principles; and make our accounting estimates and principles requested by GM.

We have generally agreed to indemnify General Motors and its affiliates against all liabilities arising out of any incorrect, incomplete, or inconsistent financial and other information we provide to GM pursuant to the terms of the IPO and Distribution Agreement.

Indemnification Relating to the IPO and the Distribution Agreement. We have generally agreed to indemnify General Motors and its affiliates against all liabilities arising out of any material untrue statements and omissions in any and all registration statements, information statements and other documents filed with the SEC in connection with the IPO and the Distribution Agreement.

However, our indemnification of GM does not apply to information General Motors, excluding information relating to Delphi. GM has agreed to indemnify us for this information.

Expenses. GM has generally agreed to pay all costs and expense to the IPO and the Distribution. We will, however, pay for the expenses of our financial, legal, accounting and other adviser incurred in connection with the Distribution. We will also pay internal costs and expenses.

Registration Rights Agreement. As noted above, General Motors announced its current plan to divest itself of ownership of our stock in the Distribution and we have agreed to cooperate with GM in all aspects of the Distribution. In the event that GM does not divest all of its shares of Delphi common stock in the Distribution, GM will be able to freely sell all of such shares without registration under the Securities Act. Accordingly, we have entered into a Registration Rights Agreement from time to time, the "Registration Rights Agreement") with GM to (or any other person to whom GM has transferred our shares) with respect to registration rights relating to the shares of our common stock held by GM. These registration rights generally become effective at such time as, if any, as GM informs us that it no longer intends to proceed with the Distribution.

Demand Registrations. Under the agreement, GM may request registration (each, a "Demand Registration") under the Securities Act of 1933 of a portion of our shares covered by the Registration Rights Agreement. GM will be obligated to register such shares as requested by GM.

Terms of Each Offering. General Motors will designate the terms of each offering effected pursuant to a Demand Registration, which may include, without limitation, the following:

- (1) an underwritten public offering;
- (2) a shelf registration;
- (3) a registration in connection with the distribution of, or offer to exchange, shares of our common stock to holders of debt or equity securities of GM, a subsidiary or affiliate of GM, or any other person; or
- (4) a distribution in connection with the registration of securities convertible into or exercisable for or otherwise related to such shares of common stock.

Demand Registration must meet a certain minimum aggregate offering price.

oTiming of Demand Registrations. We are not required to update Demand Registration within 90 days of the effective date of Demand Registration, other than a Demand Registration that was as a shelf registration. Also, we have the right to postpone or effectiveness of any Demand Registration for up to 90 day reasonable judgment of our General Counsel such registration reasonably be expected to have a material adverse effect on a proposal or plans by our company to engage in certain transactions; provided, however, that we may exercise this once in any 12-month period.

oPiggyback Registrations. The Registration Rights Agreement allows for certain "piggyback" registration rights for General Motors we propose to register any of our securities under the Securities ourselves or others, subject to certain customary exceptions provide prompt notice to GM and include in such registration of our stock which GM requests to be included (each, a "Registration"). In certain circumstances, General Motors right to reasonably object to our selection of any investment and manager(s) in connection with a Piggyback Registration.

The Registration Rights Agreement sets forth customary procedures, including a covenant by us to make available our senior management for road show presentations. All registration expenses incurred in connection with the Registration Rights Agreement, including all filing fees, expenses of compliance with securities and/or blue sky laws, financial expenses, fees and disbursements of custodians, transfer agents, exchange and/or information agents, and fees and disbursements of counsel for us and all independent certified public accountants, underwriters, discounts and commissions, and other persons retained by us will be borne by us. In addition, we must reimburse GM for the fees and disbursements of counsel as well as out-of-pocket expenses incurred in connection with registration. The Registration Rights Agreement also contains indemnification and contribution provisions by us for the benefit of General Motors and any underwriters and by General Motors for the benefit of underwriters with respect to information provided by GM.

Supply Agreement. We have entered into a Component Supply Agreement (as amended from time to time, the "Supply Agreement") which we believe provide us with a substantial base of future business with GM-North America into the next decade. GM currently sources a significant amount of automotive parts requirements from us pursuant to certain existing commitments. Except as described below, the Supply Agreement between Delphi provides that all existing contracts as of January 1, 1999 will remain in effect, including the pricing, duration and purchase order conditions. The Supply Agreement also provides that, subject to exceptions as described below, we have the right to provide on competitive

the first replacement cycle of all product programs in the United Canada which we were providing to GM as of January 1, 1999, providing sources such replacement cycle business prior to January 1, 2002. these programs will cover specific vehicle models introduced from 199 the next decade. We will also have the opportunity to bid on other business on the same basis as other suppliers.

Our ability to realize revenues on all GM business, including awarded pursuant to existing contracts, is in all cases subject to a factors, including the volume and option mix of vehicles actually : GM. The Supply Agreement provides that General Motors has the right business with us to other suppliers in the event that we are not competitive terms of quality, service, design and technology. In addition, GM has at all times to adopt new technology, whether or not such technology available through us. If we are unable to provide the new technology equivalent technology acceptable to GM on a competitive basis, GM move the business from us to another supplier.

Existing Contracts. Under the terms of the Supply Agreement, provided below, all existing contractual commitments between us and to the purchase and supply of motor vehicle-related components and as of January 1, 1999 will generally remain in effect, including the existing duration and purchase order terms and conditions. This includes contracts under which we have not yet begun to supply products. All contracts are subject to the volume and option mix of vehicles actually by General Motors and other factors.

Under the terms of the Supply Agreement, Delphi and General Motors agreed to honor all "nomination letters" in place as of January 1, 1999 regardless of whether formal purchase orders or other contractual have been issued with respect to such business. Nomination letters from General Motors informing a supplier that it has been awarded specific business to supply a product for a particular vehicle program. In light of the long product development cycles in the automotive industry, General Motors typically issues its nomination letters and other nomination

26

commitments about three years in advance of actual production of a program. These nomination letters commit GM, subject to certain conditions, to source products for a particular vehicle program from a supplier if GM determines for any reason not to proceed with the vehicle program covered by a nomination letter, it is under no obligation to source. Also, as with other purchase arrangements, nomination letters do not require any minimum purchase and are subject to actual production volumes, competitiveness and other factors.

Payment Terms. Until recently, most of our existing contracts required payment by GM in the month following GM's receipt of order. Except as described below, payment terms on all existing contracts

modified by the Supply Agreement to generally require payment for under such contracts on the second day of the second month following of shipment by Delphi. For more information regarding the impact of modified payment terms on our financial condition, see "Management Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources--Extension of Payment" modified payment terms became effective on January 1, 1999 and all future contracts with GM. These modified payment terms are consistent with the new payment terms that GM is currently in the process of introducing to its other suppliers.

The Supply Agreement also provides that certain contracts for purchases of parts for Saturn vehicle models will retain the methodology currently in place, which generally provides that payment is made only for the actual amount of product used rather than the amount delivered. Also, certain existing contracts relating to purchases for international automotive operations will retain the existing payment terms.

Our Ability to Secure Certain Next Generation Business. The Supply Agreement is intended to provide us the opportunity to capture business that replaces current GM business over the next seven years. Through December 31, 2001, we will have the ability to secure competitive purchase order terms for the first replacement cycle of product programs in the United States and Canada which we were providing to GM as of January 1, 1999, and certain other product programs as listed below. Thus, we will have the opportunity to match competitive terms with other suppliers on the next generation of the product programs we are providing to GM in the United States and Canada as of January 1, 1999, provided that the programs are sourced by GM prior to January 1, 2002. However, we will not utilize this ability to secure next generation business, but will remain competitive in terms of design, quality, price, service and technology. Suppliers' bids to provide particular products may include offers for price reductions to GM on other current or future products, and GM may consider the economic effect of such package price reductions in assessing our competitiveness.

As noted above, General Motors generally sources its product three years in advance of the start of production for each vehicle. Since many of these contractual commitments cover a significant time due to the duration of many vehicle programs of about five years, depending on the vehicle model, we expect that this ability to secure next generation business, together with our existing contracts and letters, will provide us with the opportunity to maintain business with GM well into the next decade.

Our ability to secure next generation business as described above is sometimes referred to as a "right of last refusal," includes providing to the United States and Canada of common global vehicle platforms to that we can provide or execute designs that comply with the required function specifications determined by GM, as well as production in

vehicles intended for sale in the United States or Canada; provide in all cases such programs must meet all of the other necessary conditions, including that such programs were programs in the United States which we were providing to GM as of January 1, 1999. Other than as set forth immediately above, our ability to secure next generation business does not apply to any programs of GM's international automotive operations, including vehicle production in Mexico.

The Supply Agreement also expressly provides that GM will be responsible under any circumstances for any supplemental or corrective payments to us in the event that we fail to exercise our ability to secure any next generation business or if we cannot provide our program on a competitive basis.

New Business. All new business awarded to us by General Motors is governed by the specific terms of the contracts under which such new business is awarded. Other than with respect to next generation business as set forth above, if we elect to bid for GM business, we will do so on the same basis as all other suppliers. General Motors will award any such business at its discretion.

27

GM's Right to Re-Source. Consistent with GM's contracts with its suppliers, the Supply Agreement provides General Motors the right to re-source its business with us in the event that we are not competitive in terms of quality, service, design and technology. Competitiveness is defined by demonstrable product and performance levels available to GM suppliers. The term "re-sourcing" refers to the process of moving business from Delphi to another supplier.

In the event that we are non-competitive with respect to a product, General Motors is required to notify us of our non-competitiveness and provide us with a reasonable period of time in which to correct any such non-competitiveness before GM may re-source the business. With respect to non-competitiveness in terms of quality or service, the parties will follow GM's Supplier Quality Improvement Process, which is also known as the "16-Step Process", in order to identify quality and service problems. With respect to non-competitiveness in terms of design and technology, the parties will work together to identify solutions and GM will be permitted to re-source the business on the basis that our efforts are unsuccessful within a reasonable period of time.

GM's Right to Adopt New Technologies. The Supply Agreement permits General Motors at all times to adopt new technology, whether or not a particular technology is available through us. In the event that GM wishes to implement a technological change to a product covered by a then existing contract with us, we have a right of last refusal to implement the new technology if an equivalent technology acceptable to GM and continue production on the remaining term of the existing contractual commitment. If we are

provide the new technology or equivalent technology on a competitive basis. General Motors is free to re-source the business to another supplier. Disputes regarding new technology under this process will be resolved by a senior engineer from each of GM and Delphi plus a third-party mutually acceptable to both sides.

Technical Information. Consistent with general practice in the automotive industry, we have agreed under the Supply Agreement to cooperate and share with GM technical information about the products we supply, including their manufacture, without restriction as to use.

Use of GM's Tooling. We will not use tooling to produce product for GM customers if such tooling is used to produce products for GM; however, that we will be allowed to continue the use of such tooling to the extent necessary to satisfy contracts with other customers where such tooling has been used for this purpose before January 1, 1999 and for existing contracts. We have agreed not to use tooling owned by GM against GM-SPO in the aftermarket.

Delphi Plant Closures and Product Eliminations. In the event we propose to close a plant or eliminate a product line, we must keep General Motors informed on a timely basis of our decision-making process and in good faith reasonably consider modifying our plans in order to accommodate timing requirements with respect to re-sourcing the business. Additionally, the Supply Agreement provides that in the event of an extension of the term of the Supply Agreement by General Motors of an existing product, which is covered by a contract with a fixed term, beyond the term of the original anticipated product, General Motors has the right to require us to continue production of that product to GM for a reasonable period of time on commercially reasonable terms to be negotiated between the parties.

Delphi Divestitures. In the event that we propose to divest a business, we must keep General Motors informed on a timely basis of our decision-making process and in good faith reasonably consider GM's input and conduct our selection of a qualified buyer, existing contracts with GM. The business being sold may be assigned to the buyer upon GM's prior consent, which will not be unreasonably withheld. In such case, General Motors will negotiate a new supply agreement with the buyer that will contain substantially the same terms as our existing arrangements with General Motors with respect to the business being sold. Any deviation from the terms of the existing arrangements, including with respect to pricing, will be mutually agreed upon by us and GM. During the term of the contract, Delphi and General Motors have agreed to dedicate resources and efforts to ensure that General Motors receives the same levels of quality, service, delivery, price and technology.

Service Parts. The Supply Agreement also applies to service parts. We will provide to General Motors for sale to GM-authorized dealers, in the general, unless otherwise provided in our existing contracts, the same unit pricing on service parts that are not "past model" will continue.

prices charged to General Motors until three years after such se go past model. The term "past model" refers to parts which vehicle models which are no longer in production. Thereafter, unit such service parts will be negotiated between the parties.

28

Quality Improvement. In order to facilitate quality improv Supply Agreement provides that we will participate in all GM suppl and development programs. General Motors is entitled to require us reasonable increased quality standards. All increased quality established by General Motors must be comparable to then existin standards.

Termination. Unless terminated in accordance with its terms, Agreement will remain in effect as long as any existing agreee effect, including any extensions of any such existing agreeeme Delphi or General Motors may terminate the Supply Agreement for:

- o material breach by the other party;
- o insolvency or bankruptcy of the other party; or

o attachment, embargo or expropriation of a significant por other party's assets necessary in order for that party to : obligations under the Supply Agreement.

In addition, General Motors can terminate the Supply Agreement if:

- o 35% or more of our company becomes owned or controlled, d indirectly, by a competitor of General Motors in the b manufacturing automotive vehicles; or

o all of the underlying contracts governed by the Supply Agreee subject to termination or cancellation pursuant to their terms.

Underlying contracts become subject to termination or cancell. as the result of a variety of factors, such as our non-compe cause, expiration and, in some cases, termination for c Termination for convenience means GM can terminate the contract for any reason. The majority of underlying contracts having term convenience provisions are shorter-term purchase orders. Thi terminate for convenience could be exercised by GM in connectio change in control of Delphi. Certain change in control transact also give GM the right to terminate underlying contracts pursu. provisions prohibiting us from assigning our contracts to another ent

In the event that a competitor of GM in the business of ma automotive vehicles acquires, directly or indirectly, a significa in our company, we must provide GM with reasonable assurances t

use our best efforts to preserve the confidentiality of all relating to products supplied to General Motors and GM vehicle program

Termination of the Supply Agreement would be likely to have adverse effect on our company.

Dispute Resolution. The Supply Agreement provides that all other matters related to the Supply Agreement will be exempt from resolution process set forth in the Separation Agreement or in agreement related to the transactions contemplated therein.

Aftermarket Sales. We are currently party to a Business Relationship Agreement (as modified and as amended from time to time, the "Relationship Agreement") with GM-SPO regarding aftermarket sales in States. This agreement does not, however, cover the service parts General Motors pursuant to the Supply Agreement for sale to GM dealers and distributors. The Business Relationship Agreement becomes termination by either party on or after December 31, 1999 upon two prior notice to the other party. This means the Business Relationship cannot be terminated any earlier than December 31, 2000. Until such return for certain royalties and fees it pays to us, GM-SPO generally right to act as the exclusive distributor of our aftermarket parts in States. The pricing under the Business Relationship Agreement benchmarked in an effort to ensure market based pricing with ACDelco(R) branded products. Pursuant to an Aftermarket Agreement, January 1, 1999, the payment terms between us and GM-SPO are being that GM-SPO will pay us on the second day of the second month following shipment of a product. Under the Business Relationship Agreement, if the market price for a particular aftermarket product, GM-SPO may offer aftermarket product from us. Alternatively, we may choose not to meet price for a particular aftermarket product and cease supplying such the aftermarket in the United States. Until January 1, 2001, we are to offer all new technology with respect to aftermarket products to non-exclusive basis, under terms no less favorable than those

29

offered to our other customers. Following the termination of the Relationship Agreement, we may begin distributing our own products aftermarket in the United States.

Outside the United States, we distribute our own aftermarket independently of General Motors and, with certain exceptions batteries, we are free to seek any aftermarket sales opportunities.

We have agreed with GM-SPO to split the ownership of current brands. As a result, we own the Freedom(R) brand, but may not use it in the United States until after the expiration of the Business Relationship Agreement; GM-SPO owns the ACDelco(R) brand and any AC and Delco derivatives; and GM-SPO owns the Voyager(R) battery brand, but may only

batteries sourced from us. There will be a transition period for licensees to wind down our use of the brands owned by GM or brand Delphi but currently used by GM.

Purchasing. We have entered into agreements with GM pursuant to which we continue to purchase productive materials under existing contract entered into by General Motors on our behalf, until those contracts or agreements provide that we are entitled to continue to use the systems currently used by GM's purchasing organization until such as we establish our own purchasing system, which we estimate will not take five years. In addition, in certain international operations, we may operate in a shared purchasing arrangement with GM for up to five years.

Employee Matters. We have entered into several agreements (collectively amended from time to time, the "*Employee Matters Agreements*") which allocate responsibility and liability for certain employee related matters. However, GM is obligated to bargain in good faith with the unions representing our hourly employees regarding the effects of the separation of Delphi on their members. As a result, the understandings between us and GM regarding the effect of the separation on our hourly employees represented by the unions will be affected by negotiations with the unions representing these employees. GM has advised us that it intends to work with such unions in this regard. The *Employee Matters Agreements* generally provide for the following:

Employee Transfers. As of January 1, 1999, all GM salaried employees, active and inactive, who are employees in our operations were transferred to Delphi. GM U.S. hourly employees, active and inactive, who are employees in our operations were transferred to Delphi as of January 1, 1999. GM U.S. hourly employees who remain under the applicable national collective bargaining agreements and who are incorporated employee benefit plans, until the Distribution. However, the transfer of salaried and hourly employees at certain of our international operations, and of certain related pension and employee benefits obligations, will not take place until the receipt of consents or approvals or the satisfaction of other applicable requirements. For all U.S. salaried employees who retire on or before January 1, 1999, GM is retaining responsibility for pension obligations and for other postretirement employee benefit obligations, consisting primarily of retiree medical obligations. We have had discussions with certain of the unions that represent the GM hourly employees transferred to us regarding the effect of the separation on the obligations. For information regarding these discussions, see "*Strategy--Improving Performance--Labor Relations*." With regard to our hourly employees of divested Delphi units, GM generally will retain postretirement benefit obligations for U.S. hourly employees who retire on or before January 1, 1999. We have reached agreements with the UAW and the IUE to transfer these obligations. We anticipate that we will assume OPEB obligations and pension obligations for such employees who retire after October 1, 1999.

As between GM and Delphi, the allocation of these obligations will be made based on certain estimated levels of employee retirement obligations as of October 1, 1999 based on historical experience and conditions

Delphi's separation from GM. We have agreed with GM to recal allocation of these liabilities based on the actual level of ret or before October 1, 1999. Accordingly, if and to the extent th than the assumed number of employees retire on or before October would be required to make a payment to GM. Depending on the amoun payment, if any, it could have a material adverse effect on our liquidity. Similarly, if and to the extent that fewer than the ass of employees retire on or before October 1, 1999, GM would be make a payment to us. The amount of postretirement benefits varie to time, depending on factors such as discount rate, asse contributions and other factors. As of December 31, 1998, Delphi and hourly OPEB obligation was about \$4.6 billion and the hourly pension obligation was about \$2.1 billion.

Certain Flow-Back Rights. It is anticipated that the union disc result in some of our hourly employees in the United States bein

30

with certain opportunities to transfer to GM as appropriate j become available at GM and GM employees in the United States havi opportunities to transfer to our company to the extent job openi available at our company. In general, if an employee transfer company to GM and then retires from GM, or transfers from GM to and retires from our company, both our company and GM will be resp pension payments which in total reflect such employee's enti service. Responsibility for such pension payments will generally b between the companies based on such employee's entire pre-t post-transfer service, respectively. In the case of employees t from Delphi to GM, pre-transfer service will include service with our separation from GM and thus will be reflected in the port pension payments we must bear. It is not currently anticipated will be any transfer of pension assets or liabilities between us respect to such employees that transfer between our companies.

With respect to OPEB obligations for such transferring empl company to which an employee transfers will provide the OPEB b such employee. We have entered into an agreement with GM which pro mechanism for determining a cash settlement amount for OPEB associated with employees that transfer between our company and GM year. Pursuant to this agreement, upon identification of the em transferred between GM and our company during the past year, an analysis will be done to determine an estimated pattern of cessation, including from retirement, death, or voluntary termi such employees. This estimated pattern of employment cessation wil the timing of payments due between us and GM for the empl transferred between our companies in a given year.

Separate actuarial analysis will be done for employees transf our company to GM and from GM to our company. The actuarial assump

used in valuing the OPEB obligations associated with transferring will be based on those used in conjunction with the receiving annual OPEB valuation for the given period. The liability with such transferring employees will be retained by the company from employee transferred until the cash settlement with respect there made, upon which such liability will be recognized by the compa the employee transferred.

Employee Benefits. We have established or will establish our own and employee benefit plans, which generally will be the same as GM's and employee benefit plans. Our U.S. salaried employees began participating in these plans on January 1, 1999 and our U.S. hourly employees will participating in these plans at the time of the Distribution.

Our plans generally will assume all liabilities under GM employees assigned to us. Certain pension assets funding pension will be transferred from trusts and other funding vehicles associated with GM's plans to the corresponding trusts for our plans.

General Motors Stock Awards. In connection with the completion of the Distribution, awards (collectively, "GM Awards") held by our employees under GM's incentive and variable pay plans will be revalued as of the date of the Distribution. GM Awards held by individuals employed by General Motors as of the completion of the Distribution and by individuals who have retired prior to the completion of the Distribution, will remain outstanding as GM Awards. The value of such GM Awards will be revalued as of the date of the Distribution and an appropriate revaluation to reflect the Distribution.

In the case of GM Awards consisting of stock options, such awards will be replaced with options to acquire a number of shares of our common stock equal to the number of shares of GM \$1-2/3 common stock subject to such awards as of the date of the completion of the Distribution, multiplied by the Ratio described below, rounded down to the nearest whole share. The exercise price of such converted award will equal the per share exercise price of such GM Award divided by the Ratio.

In the case of awards under the GM Performance Achievement Plan, unvested installments of final awards which are in the form of common stock or GM Class H common stock, will be converted into Delphi common stock using a ratio similar to the one described above for converting GM Awards consisting of stock options into options. The exercise price of such converted award will equal the per share exercise price of such GM Award divided by the Ratio.

The "Ratio" means the amount determined by dividing:

the average of the daily high and low per share prices of the common stock, or the Class H common stock if Class H common stock is being converted, as reported in The Wall Street Journal, for the three trading days ending on a date of record established by the Board of Directors in connection with the Distribution; by the

the average of the daily high and low per share prices of common stock, as reported by The Wall Street Journal, for trading days commencing on the day after such date of record.

Shares of Delphi's Common Stock Subject to Substitute Awards. It is not possible at this time to specify how many shares of our common stock are subject to substitute awards for GM Awards. We expect that some awards consisting of stock options held by our employees will be exercised. GM Awards will vest and other GM Awards could be granted, prior to the completion of the Distribution. In addition, the remaining unexercised options pursuant to GM Awards will be replaced with shares of our common stock by reference to the Ratio, which will be known until the time of the Distribution. Our stockholders, as a result, are likely to experience some dilutive impact from the above adjustments.

As of February 2, 1999, our employees held about 4,416,000 shares of \$1-2/3 common stock subject to options pursuant to GM Awards, about 80% of which were exercisable as of February 2, 1999. If the Ratio is determined using the \$89.44 per share closing price of the GM \$1-2/3 stock on February 2, 1999, as reported in The Wall Street Journal, and the offering price of \$17.00 per share of our common stock, the foregoing 4,416,000 shares of GM \$1-2/3 common stock subject to GM stock options will be replaced with options on about 23,231,000 shares of our common stock. As of February 2, 1999, there were less than 5,600 shares of GM's Class A common stock subject to GM Awards held by our employees which will be replaced with shares of our common stock.

Tax Matters. We have entered into two income tax allocation agreements with GM to govern the allocation of U.S. income tax liabilities and other tax matters with respect to certain other tax matters. The first tax allocation agreement is effective from the Contribution Date until such time as we cease to be a member of the General Motors consolidated group. The second tax allocation agreement, which supersedes and replaces the first agreement, is effective from the day after we cease to be a member of the General Motors consolidated group. Under the Code, we would cease to be a member of the General Motors consolidated group upon the completion of the Distribution or if GM owns less than 50% of our outstanding capital stock. The first tax allocation agreement is only effective from January 1, 1999 until tax deconsolidation. Unless otherwise provided, the provisions described below are contained in both agreements.

GM generally will pay all income taxes attributable to Delphi and its subsidiaries for tax periods before the Contribution Date. For periods during which we are a member of the General Motors consolidated group, we will calculate our tax liability as if we were a separate affiliated corporation filing a consolidated return, but we will pay our calculated tax to General Motors, which will then file a consolidated or combined

the appropriate tax authorities. There may be certain U.S. state jurisdictions in which we will file a separate income tax return, not consolidated with GM, for tax periods before tax deconsolidation. In this circumstance, we would file the income tax return with the appropriate authorities, and pay the tax directly to the tax authority. Tax generated by our company for tax periods before tax deconsolidation is our tax liability, but not below zero, and we will not be compensated for benefits generated by our company and used by the General Motors consolidated group. Except for tax elections, which are defined for purposes of taxes as the treatment of items in tax returns and filings, that have an adverse impact on the General Motors consolidated group or tax election, must be made by the parent corporation of a consolidated group. We will determine all tax elections for tax periods during which we are a member of the GM consolidated group. We will prepare and file all tax returns, including income taxes due with respect to all tax returns required to be filed for all tax periods after we cease to be a member of the GM consolidated group for U.S. state or local jurisdictions in which our return is not consolidated with GM's return.

GM is responsible for most U.S. tax adjustments related to Delphi for periods prior to tax deconsolidation, other than adjustments related to Delphi Electronics, which previously had been a separate entity in the General Motors consolidated group, or related to certain tax elections made by Delphi. In addition, we and GM have agreed to cooperate in any tax audits, litigation, appeals that involve, directly or indirectly, periods prior to the time we cease to be a member of the General Motors consolidated group. We have agreed to indemnify each other for tax liabilities resulting from the failure to cooperate in such audits, litigation or appeals, and for any tax liability resulting from the failure to maintain adequate records. The allocation agreement also provides that with respect to our foreign tax liability, we may be required to indemnify General Motors in certain situations where we receive a refund of foreign tax related to a tax period prior to tax deconsolidation and GM's foreign tax credit is reduced as a result of the refund. With a few exceptions, Delphi's subsidiaries outside the United States will generally be responsible for foreign tax adjustments relating to their businesses for all periods prior to the Contribution Date.

32

Intellectual Property. We have entered into agreements with GM to license, develop, division and transfer of certain intellectual property. Pursuant to these agreements, General Motors has assigned, or agreed to transfer, patents, patent applications and invention records that are primarily owned by us or produced or sold by us and any other patents that are more important to us than to General Motors. Accordingly, GM has transferred to us partial ownership of about 2,800 patents, 640 U.S. patent applications, invention records of invention as well as the corresponding foreign patent applications. We have agreed with GM to enter into royalty-free cross-licenses for certain intellectual property and we believe that the aggregate value of the cross-licenses are about equal. We have also agreed with GM that

can collect reasonable royalties or damages under certain patent other's suppliers with whom the other does not have or extend an existing commitment. Also, GM has transferred to us ownership of about 1,170 registrations and applications, about 70 of which are U.S. and the which are foreign, as well as unregistered trademarks. Certain intellectual property agreements relating to our business have been entered to us, and with respect to intellectual property agreements entered in the benefit of both parties, GM will use reasonable efforts to have us make such agreements.

We have entered into agreements with GM that place restrictions on certain technologies. For example: GM will have a right of first limited exclusivity for certain OnStar-related vehicle information technology; each party is restricted from disclosing certain powertrain control, collision avoidance and other software algorithms to third parties without the consent of the other party; and General Motors will retain ownership of certain fuel cell propulsion system and related technologies, but we will have the right to supply a minimum of 25% of the volume of components for GM's first two major vehicle programs to utilize the fuel cell technology provided we can meet certain conditions, including competitive benchmarking on quality, service and price.

There are certain restrictions on our use of some of the trademarks that have been assigned to us. In addition, certain trademarks and trade names have been licensed, rather than transferred, to us, and there are restrictions on the geographical territory, duration and/or scope of our use of such trademarks and trade names. Our Delco Electronics subsidiary has a worldwide, royalty-free license to use the trade name "Delco Electronics" and the trademarks "DELCO" and "DELCO ELECTRONICS" in connection with several of our business units, but we must wind down our use of that trade name and trademarks to include only automotive audio products by January 1, 2000. We also have a worldwide license to use the trademarks "AC," "DELCO" and "AC Delco" in connection with our automotive audio products, but we must wind down all use of these marks, including such use by our distributors by January 1, 2000. This license is royalty-free, except in certain circumstances relating to joint ventures and third-party relationships. In that we have been assigned to us, we may be required to pay GM a royalty

Real Estate and Environmental. We have entered into agreements and have executed certain instruments to assign or sub-lease GM's real estate and facilities related to the Delphi Automotive Systems Business, consisting of both owned and leased property, between our companies as follows:

- o With respect to the facilities that were owned by GM and used in connection with our business, such facilities have been transferred to our company.

- o With respect to facilities owned by GM and used by both GM and Delphi, we are leasing to us the portion of such facilities which we use. Such leases are generally for a term of three years and the rent thereunder at prevailing market rates.

oWith respect to facilities that were leased by GM and use connection with our business, GM has assigned such leases to us. these assignments, we have assumed all of GM's obligations assigned lease and agreed to indemnify GM against all obligations under such leases after their assignment.

oWith respect to facilities leased by GM and used by both GM and sub-leased to us the portion of such facilities which we sub-leases are generally for the then remaining term of GM's lease facilities, less one day, and the rent thereunder shall generally occupancy cost per square foot payable under GM's lease for such facilities.

oGM has also assigned to us its interest in the facilities he ventures in which GM was a party and which facilities we utilize.

Under the lease and sub-lease arrangements described above, the retain responsibility for releases of hazardous materials at the facilities.

33

the closing of the real estate transactions and for certain environmental non-compliance matters relating to pre-closing operations lessee will be responsible for releases of hazardous materials at the facilities after the closing and for all other environmental non-compliance matters the lease term.

With respect to the facilities transferred to us, we have a operating costs thereof and applicable financial and environmental responsibilities respect thereto. With respect to facilities that are not transferred including all facilities closed or sold prior to January 1, 1999, Gen has retained all operating costs thereof and applicable financial environmental reserves with respect thereto, whether or not such facilities previously used by Delphi.

Pursuant to the separation arrangements between our company and we be responsible for environmental liabilities at the GM facilities transferred to us, including all facilities closed or sold prior to 1999, except that we will be responsible for any environmental liabilities such facilities that we cause after January 1, 1999. We will be responsible for environmental liabilities at the facilities that are transferred to that GM will be responsible for any environmental liabilities at such facilities that GM causes after January 1, 1999.

In addition, with respect to liability for offsite waste disposal retain responsibility for sites where GM's liability is known or alleged to January 1, 1999, except that we will be responsible for any waste contributes to these sites after January 1, 1999. We will not, however, be responsible for any contributions to these sites from the facilities transferred to us that occurred prior to January 1, 1999. At other waste disposal

GM's and Delphi's respective liability will be allocated based on each respective contribution of wastes to such sites. In particular, GM's liability will be based on contributions from the facilities it retains and any facility owned or operated by GM, except the facilities transferred to Delphi. Delphi's liability will be based on contributions from the facilities transferred to us and any other facility owned or operated by Delphi.

Tooling, Containers and Dunnage. We have entered into agreements to allocate the ownership of tooling, containers and dunnage. GM and Delphi each own the tooling that was reflected on their respective balance sheets as of January 1, 1999. The term "tooling" refers to all tools, jigs, die fixtures, molds, patterns and similar items necessary for the production of automotive parts. We will not use tooling to produce products for our customers if such tooling is used to produce products for GM; provided, that we will be allowed to continue the use of such tooling to the extent necessary to satisfy existing contracts, and extensions of such contracts. We have previously used such tooling to produce products for other customers. For more information, see "--Supply Agreement--Use of GM's Tooling."

Containers and dunnage used for the transportation of our products from our facilities to GM facilities or other Tier 1 suppliers to GM will be owned by General Motors. The term "dunnage" refers to the materials, such as wrappings and other loose materials, used to protect automotive products for shipment. We will own containers and dunnage used for the transportation of products within our facilities. Finally, we will own containers and dunnage for the transportation of products between us and our suppliers.

Warranty Matters. Our warranty responsibility for products supplied to General Motors under existing contractual arrangements will be governed by the terms and conditions of those contracts. Generally, those terms and conditions provide that Delphi expressly warrants to GM that all goods and services supplied by the contract will conform to the specifications, drawings, descriptions furnished to or by General Motors, and will be merchantable, good material and workmanship and free from defect. In addition, Delphi acknowledges that it knows of GM's intended use for the products and warrants that the products have been selected, designed, manufactured and assembled based on GM's stated use and will be fit and sufficient for the purposes intended by General Motors.

We have agreed with GM pursuant to the Supply Agreement to work in good faith to reduce warranty costs, including through participating in GM's warranty programs. In addition, the Supply Agreement provides that our responsibility for products supplied under new contracts will be governed by the terms and conditions negotiated between the parties in those contracts.

Interim Services. The Ancillary Agreements provide that General Motors will furnish us with a number of interim services, which services will be provided to us at cost. In addition to any services discussed above, the services include, among others:

ocertain treasury, accounting, which includes accounts p.
receivable, tax, travel, customs and payroll services;

34

ocertain information systems services, including financial, e.
environmental, human resources, manufacturing, communication
logistics, purchasing and warranty and service systems;

o a variety of employee-related administrative support services,
human resource planning and employee placement and medical services;

o certain legal services;

o certain audit services; and

omanaged access to proving grounds, test facilities, re
development and engineering centers and the services provided at
by General Motors personnel.

These agreements were made in the context of a parent-subsiidiary r
and were negotiated in the overall context of our separation from GM.
charged to us under these agreements may be higher or lower than the
may be charged by unaffiliated third parties for similar service
services provided may not be the same, in scope and level, as thos
before our separation from GM.

International Agreements. We have entered into a series of agreeme:
similar to those discussed above with respect to those Delphi Asse
outside the United States. In most countries, GM's vehicle and
businesses are operated by separate legal entities. In such coun
entities that operate the components business will be transferred
Where certain facilities or functions are shared by such sepa
entities, the shared functions or facilities will generally be s
accordance with the principles set forth in the corresponding
Agreement in the United States. In those countries in which the
components businesses are owned by one legal entity, new entities h
will be formed in order to separate the Delphi business from the GM b

Agreements have been or will be entered into in each of the count.
operations are to be transferred to Delphi. Although the agreemen
countries have or will have different terms than the Ancillary Agreem
United States, in general they are or will be similar in scope to th
Agreements. Certain international assets relating primarily to our b
still be held by General Motors or its affiliates following the Offer
receipt of consents or approvals or satisfaction of other
requirements necessary for the transfer of such assets to Delphi. T
and operations are not, individually or in the aggregate, mater
company. For example, certain assets and operations located in Brazi
and Canada are subject to such restrictions. However, the informati.

in this report regarding our company and our facilities and including the information set forth in the "Item 1. Business" section consolidated financial statements presented elsewhere in this report and gives effect to the completion of these transactions.

35

Employees; Union Representation

As of December 31, 1998, excluding our joint ventures and other in which we employed 197,568 persons, including 32,896 salaried employees and 164,702 hourly employees. Of our hourly employees, about 93% are represented by unions, including the UAW, the IUE and the USW. The UAW is our largest union representing about 28% of our unionized employees. Our union representation by major region as of December 31, 1998 is indicated in the table below:

Union Representation

Region -----	Number of Unions -----	Number of Employees -----
United States		
UAW.....	1	43,150
IUE.....	1	15,837
USW.....	1	1,403
Other unions.	3	250
	-	-----
Total United States.	6	60,640
Canada.....	2	957
Mexico.....	6	58,758
Europe.....	32	27,715
South America..	5	5,265
Asia/Pacific...	2	637
	--	-----
Total.....	53	153,972
	==	=====

The national collective bargaining agreements negotiated by unions currently apply to our workforce. GM's national agreement with the UAW expires in September 1999, GM's national agreement with the IUE expires in November 1999 and GM's national agreement with the USW expires in 2002. We will assume the terms of the existing collective bargaining for our employees in connection with the Distribution.

The percentage of our employees located outside the United States has increased from about 38% in 1992 to about 60% in 1998. We expect the percentage of our employee population located outside the United States will continue to increase over time as we continue to expand our operations globally.